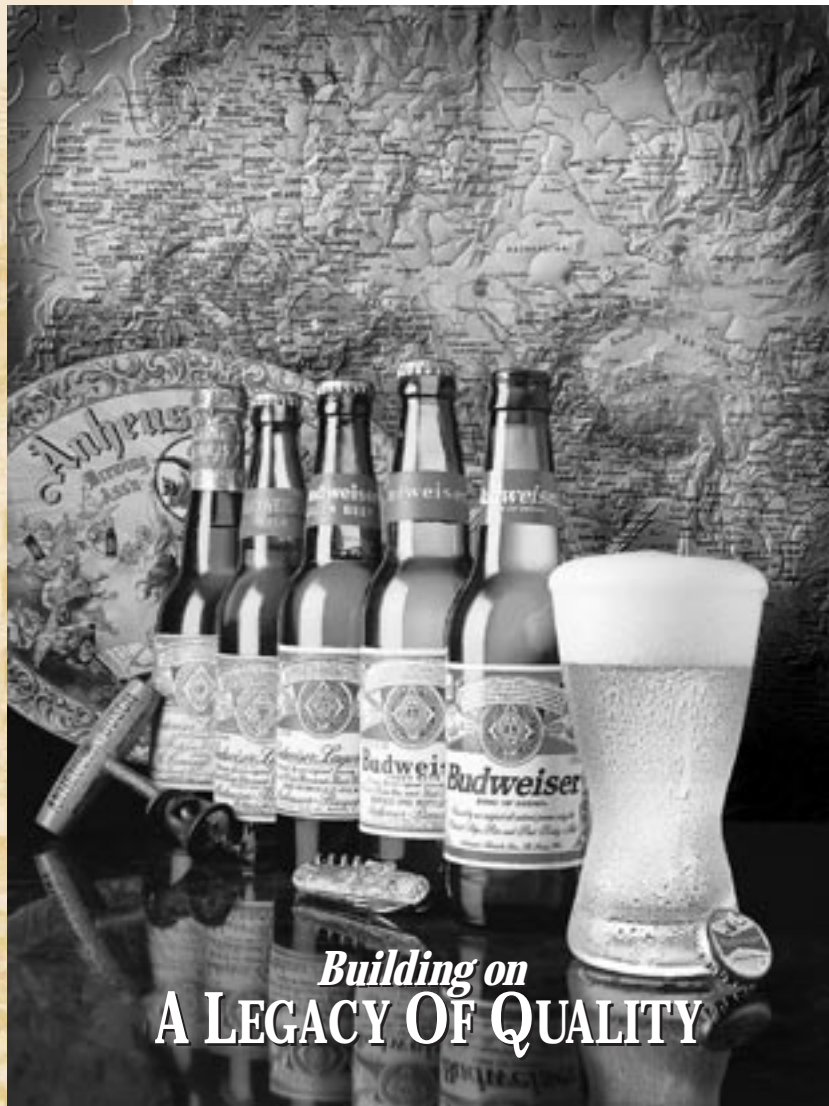


ANNUAL REPORT 1997

*Brewed by our original all natural process
Choicest Hops, Rice and Best Barley*



Building on
A LEGACY OF QUALITY

*THE WORLD
RENOWNED*

*BUDWEISER
LAGER BEER*

*Budweiser beer. We know
over which costs so much to
wood Aging produces a t
ity you will find in no other*



ANHEUSER-BUSCH COMPANIES





Contents

1997 Financial

Highlights

Letter to Shareholders

Beer Operations

Special Section:

A Legacy of Quality

Entertainment Operations

Packaging Operations

Financial Review

Officers

Directors

Investor

Information

1997 FINANCIAL HIGHLIGHTS ANHEUSER-BUSCH COMPANIES

(In millions, except where noted)

| Year Ended December 31, | 1997 (1) | 1996 (2) | % Change |
|---------------------------------------------------------------|------------|-------------|----------|
| Barrels of beer sold: | | | |
| Domestic..... | 89.6 | 88.9 | .7 |
| International | 7.0 | 6.2 | 13.4 |
| Worldwide..... | 96.6 | 95.1 | 1.6 |
| As reported, including 1996 Cardinal gain: | | | |
| Gross sales..... | \$12,832.4 | \$ 12,621.5 | 1.7 |
| Excise taxes..... | 1,766.2 | 1,737.8 | 1.6 |
| Net sales..... | 11,066.2 | 10,883.7 | 1.7 |
| Operating income..... | 2,053.0 | 2,083.8 | (1.5) |
| Income from continuing operations..... | 1,179.2 | 1,156.1 | 2.0 |
| Diluted earnings per share from continuing operations..... | 2.36 | 2.27 | 4.0 |
| Effective tax rate..... | 38.4% | 38.9% | (.5)% |
| Excluding 1996 Cardinal gain: | | | |
| Operating income..... | \$ 2,053.0 | \$ 2,029.1 | 1.2 |
| Income from continuing operations..... | 1,179.2 | 1,122.7 | 5.0 |
| Diluted earnings per share from continuing operations..... | 2.36 | 2.21 | 6.8 |
| Return on shareholders equity..... | 29.2% | 29.2% | — |
| Return on capital employed..... | 13.7% | 14.1% | (.4)% |
| Fixed charge coverage..... | 7.3x | 7.9x | (.6)x |
| Total assets..... | \$11,727.1 | \$ 10,463.6 | 12.1 |
| Long-term debt..... | 4,365.6 | 3,270.9 | 33.5 |
| Shareholders equity..... | 4,041.8 | 4,029.1 | .3 |
| Total debt to total capitalization ratio..... | 51.9% | 44.8% | 7.1% |
| Capital expenditures..... | 1,199.3 | 1,084.6 | 10.6 |
| Depreciation and amortization..... | 683.7 | 611.5 | 11.8 |
| Common dividends paid..... | \$ 492.6 | \$ 458.9 | 7.3 |
| Per share..... | 1.00 | .92 | 8.7 |
| Total taxes..... | 2,675.3 | 2,682.8 | (.3) |
| Weighted average shares outstanding: | | | |
| Basic..... | 492.6 | 499.1 | (1.3) |
| Diluted..... | 499.7 | 510.6 | (2.1) |
| Number of full-time employees..... | 24,326 | 25,123 | (3.2) |
| Number of common shareholders..... | 64,815 | 65,079 | (.4) |
| Closing stock price..... | \$ 44 | \$ 40 | 10.0 |

Note 1: In December 1997, the company expensed all previously capitalized and unamortized business reengineering costs associated with the development and installation of software. The total write-off was \$10 million after tax (\$.02 per share), and is shown as a separate "cumulative effect of accounting change" line item in the Consolidated Statement of Income, below income from continuing operations. See Note 3 for additional information.

Note 2: Except where noted, 1996 financial results include the impact of the \$54.7 million pretax gain (\$.06 per share) on the sale of the St. Louis Cardinals. To facilitate further evaluation and understanding of the company's financial results, information excluding the Cardinal gain is disclosed in the Management's Discussion and Analysis and Letter to Shareholders sections of this report.



LETTER TO SHAREHOLDERS

1997 was a challenging year for your company. However, despite an intensely competitive pricing environment and modest U.S. industry growth of less than 1%, Anheuser-Busch achieved higher sales and earnings. Although we did not reach our double-digit earnings per share growth objective, we are experiencing positive trends and have implemented several initiatives that strengthen your company's long-term position.

Our good performance in the face of challenges should come as no surprise. For nearly 140 years—since the days of our founder, Adolphus Busch—your company has been successfully meeting challenges, as you will see in the special section beginning on page 19. In 1997, we continued to build on the strong legacy of quality, innovation and leadership that is highlighted in this special section.



Adolphus Busch
(1839-1913)
Founder of Anheuser-Busch



ANHEUSER-BUSCH COMPANIES

LETTER TO SHAREHOLDERS

During the last year we accomplished much and emerged in a stronger competitive position. Anheuser-Busch finished 1997 with a domestic market share (excluding exports) of 45.5%—more than twice that of our nearest competitor.

To quickly review our 1997 performance:

- Consolidated net sales were up 1.7%, driven by worldwide beer volume growth as well as higher attendance and in-park revenues at our theme parks.

- Operating profit was up 1.2%, primarily due to increased beer sales volume; improved brewery productivity; marketing, distribution and administrative cost containment; and higher profitability from our entertainment operations.

■ ***Anheuser-Busch's significant economies of scale enhance our competitive position. We have been able to capitalize on our 45.5% U.S. market share to capture 69% of the industry's operating profits.***

- Budweiser and Bud Light maintained their No. 1 and No. 2 positions, respectively. Together, the brands were up more than 2% for the year.

- Anheuser-Busch brands enjoyed double-digit volume growth in the overall international marketplace, with significant progress in China, the United Kingdom, Ireland and South America.

- Busch Entertainment turned in an excellent performance, with attendance up nearly 7% and operating profit up 24%.

- And our packaging operations provided more than \$100 million in operating profit.

As I said at the beginning of this letter, 1997 performance was impacted by intense price competition in the industry. In order to halt its market share losses, the nation's No. 2 brewer intensified both the depth and frequency of its promotional discounting. The impact of this activity was significant for second-tier brewers, as the aggressive discounting negatively affected their sales of subpremium-priced brands, which represent a majority of their volume. Despite its aggressive discounting, however, our largest competitor was unable to gain market share.

Although we do not believe that such dependence on discounting is a viable long-term strategy for any company, we adjusted our prices in order to remain competitive and protect our market share. By the end of the year, our volume stabilized and we saw renewed growth.

Nevertheless, our revenue per barrel was down slightly for 1997. And while earnings per share did not meet our objectives, we remain committed to double-digit earnings per share growth. Our leadership in a noncyclical industry, plus strong cash flow, makes Anheuser-Busch stock a solid, relatively low-risk holding.

It's also important to remember that we are the leader in a changing industry. Ten years ago, the top three brewers held a 69% market share; today they hold a 77% share. Anheuser-Busch's significant economies of scale enhance our competitive position. We have been able to capitalize on our 45.5% U.S. market share to capture 69% of the industry's operating profits.

During 1997, a number of initiatives were introduced to accelerate more profitable growth, enhance shareholder value and strengthen the company's competitive position for the future.

Domestically, we continued to emphasize our quality advantage. We broadened our campaign highlighting Anheuser-Busch beers as the freshest in the marketplace and introduced new commercials that focus on our company's heritage and quality.



We also established a voluntary “share of mind” incentive program for wholesalers, which encourages greater commitment to Anheuser-Busch products. Since the program was announced, the percent of Anheuser-Busch volume that goes through wholesalerships selling Anheuser-Busch products exclusively has risen from 40% to 53%. The volume growth performance of exclusive wholesalers has historically been 1% higher per year than their nonexclusive counterparts.



In addition, we implemented an amended Wholesaler Equity Agreement. The earlier agreements, beginning in 1967, gave wholesalers exclusive territories and a degree of security never before enjoyed in the brewing industry. The amended agreement remains the best in the industry, ensuring both the active participation of wholesalers in their local markets and an even higher level of service to retail customers.

Bottom line, Anheuser-Busch is committing substantial resources to maximize the impact of our wholesaler network, strengthening what is already one of our key competitive advantages.

■ ***Bottom line, Anheuser-Busch is committing substantial resources to maximize the impact of our wholesaler network, strengthening what is already one of our key competitive advantages.***

We also continued our cost reduction and productivity improvement efforts. General and administrative costs have been contained, and our salaried workforce was reduced by 5% (500 positions), almost entirely through attrition. A new companywide leveraged purchasing initiative was instituted as well, which should generate significant annual savings beginning in 1998. Together, our productivity improvement initiatives and other cost-reduction measures are projected to generate close to \$100 million in incremental annual savings.

In addition, we introduced focused production at our breweries. Under this new system, production of small-volume brands and packages is concentrated at three breweries. These small-volume products represent less than 10% of our volume, but more than 80% of our brand and package combinations. Focused production improves systemwide efficiency, reduces costs and enhances brewery responsiveness.

On the distribution front, we established a network of wholesaler support centers that consolidates shipments of small-volume brands before forwarding them to the ultimate wholesaler location. This system will provide approximately \$20 million in annual savings, primarily through reduced finished product transfer costs.

Finally, we began an aggressive new effort focusing on our flagship brand during “Budweiser Concentration Weeks” in March and August. I am pleased to report that the summer of 1997 was Budweiser’s best peak selling season in years. Bud Light was also a strong performer. It maintained double-digit growth momentum and continues to be the fastest-growing, best-selling premium light beer. Together, sales to retailers for the two brands were up more than 2% for 1997, their best combined performance in more than five years.

Our efforts on the international front have been equally aggressive as we continue to build Budweiser as a global brand, and we are making good progress. Our strategy of taking Budweiser to countries that have growing economies, rising standards of living, increasing discretionary income and good growth rates for beer is paying dividends. Sales volume outside the United States was up more than 13% in 1997, and the volume of Anheuser-Busch brands sold internationally has nearly doubled over the past five years, from 3.6 million barrels to approximately 7 million barrels. Budweiser brand sales were up 18% in 1997, with international volume growth driven by gains in China, the United Kingdom, Ireland and South America.

LETTER TO SHAREHOLDERS

Our international efforts are discussed in more detail later in this report, but I'd like to mention three key accomplishments.

In China, Budweiser volume was up more than 140% in 1997 compared to the prior year, with 1 million barrels sold. In fact, sales demand so far exceeded supply that we are doubling brewery capacity there ahead of schedule. China is now our third-largest market after only 2-1/2 years of operation, and we expect to become profitable there by the year 2000.

In the United Kingdom—our most profitable international market—sales volume was up 17%. Our profit growth there has benefited from the buyout of the remaining interest in our local brewing joint venture from Scottish Courage.

■ *As we move into 1998, the domestic beer business remains our top corporate priority. We are committed to taking the necessary steps to increase our share of the industry margin pool, grow our market share and enhance long-term shareholder value.*

Our investment in Mexico's Grupo Modelo was a significant contributor to profit growth in 1997. We exercised our remaining option to raise our stake from 37% to 50.2%. Due diligence is complete and Anheuser-Busch and the controlling shareholders of Grupo Modelo are pursuing arbitration to resolve a dispute concerning the purchase price for the option shares.

Our nonbeer core businesses also took steps in 1997 to strengthen their industry positions.

With new attractions in each of its nine parks, Busch Entertainment had an outstanding year in 1997, exceeding \$100 million in operating profits for the first time. Busch Entertainment hosted a record number of guests during the year, with each park exceeding 1996 attendance levels. Overall attendance and profitability have increased for each of the past six years, with annual profits growing at an average rate of more than 20%. In addition to their premier position in the theme park industry and their well-known commitment to conservation and education, our theme parks offer a positive setting in which to communicate Anheuser-Busch's commitment to quality and moderation.

Our packaging operations provide more than \$100 million in annual operating profits and support the beer company's ability to manage the cost and quality of its production materials. 1997 highlights include the introduction of what is expected to become the industry standard for beer cans—a larger-opening lid—and a new Packaging Innovation Center in St. Louis.

As we move into 1998, the domestic beer business remains our top corporate priority. We are committed to taking the necessary steps to increase our share of the industry margin pool, grow our market share and enhance long-term shareholder value.

One of our key domestic initiatives is a new pricing strategy designed to foster the high-quality image of our brands and the freshness of our products.

Beginning in January 1998, rather than initiate a front-line price increase, we began reducing the depth, duration and frequency of our discounts in all markets. This action should reduce the spread between front-line and promoted prices and reduce the percent of volume sold on discount, thereby enhancing the profitability of all three tiers of the distribution system.

In 1998, we will also increase marketing spending, especially for media. Our intent is to continue to build brand equity and generate renewed market share gains, particularly with the Bud Family,



which accounts for nearly 70% of Anheuser-Busch shipments and more than 30% of U.S. beer industry volume.

In addition, domestic capital expenditures will start to decline, down about \$200 million for the year as our brewery modernization program winds down. We've significantly reduced cash conversion costs and replaced much of our older brewery equipment. This has allowed us to reduce future maintenance and replacement requirements while increasing low-cost incremental capacity. Although this program was a major capital commitment, it will strategically enhance our long-term competitive advantage vs. brewers who are not investing for the future.



I'd like to take a moment now to share my expectations for what's ahead.

First, our primary objective continues to be to increase long-term shareholder value.

In the domestic beer business, our goal is to increase profitability through improved margins and profitable volume growth. Anheuser-Busch recognizes that volume growth without profitability is not in the best interest of shareholders. Nevertheless, the company will not tolerate any market share loss.

Second, we are experiencing improving domestic volume growth trends compared with last year. Internationally, we anticipate double-digit volume growth for Anheuser-Busch brands.

Third, our international profits should increase significantly from both our operations and the full-year impact of our Modelo investment. While globalization provides the greatest opportunity for significant long-term growth, we realize that it requires patience, perseverance and commitment. Within the next five years, we expect that our international operations and investments will contribute 20% to 30% of the corporation's total growth in earnings.

■ *In 1998, we will also increase marketing spending, especially for media. Our intent is to continue to build brand equity and generate renewed market share gains, particularly with the Bud Family, which accounts for nearly 70% of Anheuser-Busch shipments and more than 30% of U.S. beer industry volume.*

A number of positive developments further enhance Anheuser-Busch's long-term position as the world's beer company.

Demographics are improving. After several years of decline, the number of 21-year-olds in the United States will begin to rise in 1998. In addition, as baby boomers (age 34-52) grow older they are clearly maintaining consumption levels to a greater degree than their predecessors.

Further, by early in the 21st century, 30% of the world's population will be in the important 21-to-39-year-old beer drinking age group, and six out of seven of these potential beer drinkers will be in developing countries.

In addition, studies continue to indicate that moderate consumption of alcohol beverages can be part of a healthy lifestyle for adults who choose to drink.

Research also continues to demonstrate that alcohol awareness efforts—in which your company plays a major role—are working. According to a University of Michigan study, drinking among high school seniors is 24% lower today than in 1982. And the U.S. Department of Transportation reports that teenage drunk driving fatalities have declined 64% since 1982.

LETTER TO SHAREHOLDERS

Anheuser-Busch has always been at the forefront of encouraging the moderate and responsible consumption of our products. Since 1990 alone, we have invested more than \$165 million in efforts to curb alcohol abuse and fight drunk driving and underage drinking. Recent efforts include a first-of-a-kind partnership with America's largest beer retailer—7-Eleven—to aggressively tackle the problem of underage drinking through the distribution of ID-checking tools and other education materials to all 5,600 7-Eleven stores nationwide. And in 1998, Anheuser-Busch wholesalers will be dedicating one penny for every case of beer they sell toward alcohol awareness and education efforts at the community level.

Finally, I want to thank the 24,000 Anheuser-Busch employees whose hard work and dedication have helped this company succeed. We expect to finalize our new labor agreement covering our brewery workers shortly. These employees are among the finest in U.S. industry, and the new agreement seeks to meet their needs while ensuring the long-term future of your company.

■ ***We still view our business as selling our beer one bottle at a time to one person at a time. We will continue to do this with single-minded determination—at home in the United States and, increasingly, in countries around the world. This is the core of our business philosophy.***

As we approach the dawn of a new century, we do so from a position of strength. We are a company with well-established roots, and we understand a critical, fundamental truth: Though the beer business today is far more sophisticated than it was in the day of my great-grandfather, Adolphus Busch, we still view our business as selling our beer one bottle at a time to one person at a time. We will continue to do this with single-minded determination—at home in the United States and, increasingly, in countries around the world. This

is the core of our business philosophy.

We believe that our shareholders recognize this. They know they are investing in a company whose focus is sharp and sure. They know their company holds a leadership position in the beer industry and is unrelenting in its commitment to quality and consistency. They know their company is backed by a distribution system unequaled in the United States and is staffed by loyal employees, most of whom are shareholders. And they know their company is committed to providing solid returns to its investors.

They also know that Anheuser-Busch's heritage of quality, innovation and leadership provides the company with both a sturdy foundation on which to build and a springboard to the future. And that is where our focus is—on the future. So as you review the remarkable achievements of your company in the special section of this report, remember one thing.

The most remarkable achievements are yet to come.

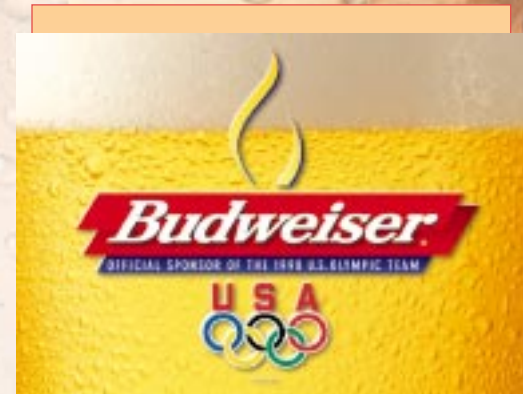


August A. Busch III
Chairman of the Board and President
February 4, 1998



In 1997, Anheuser-Busch continued to make inroads in the international beer market and maintained its strong position domestically. The company solidified its leadership role as the world's largest brewer, with international beer volume up 13.4%, to 7 million barrels, vs. 1996. The reach of the Budweiser name continued to expand, and Budweiser remains one of the most valuable brand franchises in the world for consumable products, according to a study done for Financial World magazine.

Anheuser-Busch's goal is to further establish itself as the world's beer company and increase its lead over its nearest competitor. In pursuit of that objective, the company is strategically leveraging the experience and strong brand equity gained in the U.S. beer market. Anheuser-Busch currently has a leading global market share of 9.3%, including 6.8 million barrels of equity volume through partnerships with brewers in other countries.



With a worldwide television audience of approximately 2 billion, the Olympics offer an exceptional marketing opportunity that allows Anheuser-Busch to build significant brand equity for Budweiser around the globe. The company is the exclusive beer sponsor of the 1998, 2000, 2002 and 2004 U.S. Olympic Teams and the exclusive beer sponsor of the 2002 Winter Olympic Games in Salt Lake City, Utah. As part of that sponsorship agreement, Anheuser-Busch will have the right to use the U.S. Olympic Team and 2002 Olympic Games logos on advertising and promotional material.

Anheuser-Busch's seven-year agreement (through the 2004 Summer Games) is the longest sponsorship agreement in the company's history.



DOMESTIC BEER OPERATIONS

In 1997, the brewing industry experienced a very aggressive price environment as major competitors increased discounting in the hopes of improving volume trends. Although our overall revenue per barrel was down slightly, Anheuser-Busch was able to maintain market share, and the company increased domestic sales volume by 650,000 barrels, or .7%. Industry volume increased by .7%, largely due to the increase in imported beers.

Anheuser-Busch sought to raise front-line prices at the beginning of the year, but competition chose to increase discounts and introduce promotional packages to stabilize their declining sales volumes. In keeping with our business policy, we matched the increased discounting to prevent creating a pricing disadvantage in the market. Because of this competitive response we saw our sales-to-retailer trends improve substantially in the second half of the year vs. the first half.

Anheuser-Busch does not plan to increase front-line prices in 1998. Our pricing strategy is focused on reducing our level of discounting. This decision is based on our firm belief that excessive discounting erodes brand image and undermines product freshness.

Beginning in January 1998, we initiated discount reductions on a national basis. We expect a good level of success, since the industry's current pricing structure is not sustainable long term. Moreover, a discount reduction plan is more flexible than realigning front-line pricing, as it allows us to respond more quickly to competitive discounts. We feel this course of action provides the best opportunity to enhance our market position and maximize long-term shareholder value.

In the face of aggressive competitive pricing, Bud Family sales were strong. Budweiser slowed its decline to 2%, and Bud Light increased its sales volume by 10%. To support this strong performance we will continue to focus our market-



It was called Budweiser Concentration Week—and it was the largest focused selling promotion in the company's history. When Anheuser-Busch wholesalers and employees hit the streets last March, they had one goal—sell Budweiser. And sell they did. Budweiser was up 5% vs. the same week in 1996, and more than 64,000 new package placements were made. The promotion was so successful that Anheuser-Busch held a second concentration week later in the year.

Budweiser holds a 73% share in the regular premium beer segment in the United States and remains the world's best-selling beer.

ing resources on the Bud Family, which accounts for more than 30% of U.S. beer industry volume.

Our Michelob brands were more seriously impacted by the price discounting of premium brands. As a result, we will increase marketing efforts behind these brands in 1998.

The Busch Family of brands, which was initially impacted by price discounting, responded well in the second half of the year as we became fully price competitive. We feel these brands are well-positioned in 1998.

While our focus must—and will—remain on our core, mainstream products, Anheuser-Busch is also active in the specialty beer market. Although domestic specialty products account for slightly less than 4% of industry volume, they generate about 6% of industry margin—and the category is growing 5% annually. In addition, 80% of specialty volume is consumed by drinkers who regularly drink mainstream brands. So the favorable impressions of Anheuser-Busch generated by our specialty portfolio carry over and have a positive impact on our mainstream brands.

We have also established alliances with well-respected microbrewers—Redhook and Widmer—which allow us to provide our wholesalers and consumers with a complete brand portfolio.



In an innovative ad campaign, Anheuser-Busch has called on its most credible spokesperson to discuss the company's heritage and commitment to quality—August A. Busch III.

The commercials, which began airing in July 1997, have been well received by beer drinkers in all age groups. They feature August A. Busch III informally talking about the company's rich history and the importance of quality and craftsmanship in brewing. August A. Busch IV also participated in this campaign.

The ads are designed to expand the quality message being communicated through the Budweiser freshness campaign.



With high-end specialties and imports accounting for more than 20 million barrels in 1997, Anheuser-Busch is tapping into that market by extending the Michelob line into this category.

1997 Michelob extensions included Honey Lager and Pale Ale—both released nationally—and Porter, released in select Northwestern states. In addition, HefeWeizen—previously available only in select markets—was released nationwide. In 1998, Black and Tan will be introduced nationally.

As a major equity for Anheuser-Busch, the Michelob name is also being linked to seasonal beers. Maple Brown Ale was available in the fall of 1997, and Winterbrew Spiced Ale was the holiday entry.

BEER OPERATIONS

Given today's challenging environment, we continue to look for new ways to create value for our shareholders. As investors know, increases in stock price result from profit growth, which in turn requires volume and unit margin growth. To attain that growth, Anheuser-Busch must build sustainable brand equity, which is

the defining characteristic of most successful consumer goods businesses.



Anheuser-Busch expanded its participation in the microbrew market by signing a distribution and equity agreement with Widmer Brothers Brewing of Portland, Ore., one of America's leading microbrewers. This alliance will allow Anheuser-Busch to expand its participation in the growing craft/specialty beer segment while providing Anheuser-Busch wholesalers with a unique set of new beverages to sell in their local markets. Widmer will continue to be an independent company under the direction of its current management team.

The Widmer agreement complements Anheuser-Busch's investment in Redhook Ale Brewery, also one of the nation's leading microbrewers.

While Anheuser-Busch produces and supports numerous brands across the entire beer spectrum, our most intense equity-building efforts are focused on the Budweiser Family, which accounts for nearly 70% of our sales and an even greater share of our operating profits.

With a flagship brand that has prospered for more than 120 years, our challenge is to make Budweiser the brand of the new generation as well as the favorite brand of longtime beer drinkers. We continually search for innovative, creative ways to ensure that each new generation of consumers recognizes and appreciates Budweiser's value.

A good example of this strategy in action is our freshness campaign, which capitalizes on the "freshness" advantage of all Anheuser-Busch beers, but focuses on Budweiser. Freshness is a characteristic that appeals to all generations of drinkers and cuts across all demographic lines. Introduced a little more than a year ago, our freshness campaign is now widely recognized and has provided a new—and appealing—marketing focus to support an estab-

"Family Talk About Drinking," an Anheuser-Busch consumer awareness and education program, has been updated. Introduced in 1990, "Family Talk" is designed to help prevent underage drinking by encouraging open, honest communication between parents and kids.

"Family Talk" has received several new endorsements, including accolades from the Korean-American Grocers Association, the National Council of Negro Women, the National Junior Chamber of Commerce (Jaycees) and the U.S. Hispanic Chamber of Commerce.

More than 2 million parents and educators have received "Family Talk" materials since the program's introduction.



BEER OPERATIONS

Consistent with our objective of finding more efficient ways to brew and deliver our products, we will complete the implementation of our Wholesaler Support Center concept in the fourth quarter of 1998. Under this system, most small-volume products are produced at only three breweries, which improves production

efficiency at our other breweries (by increasing run times) and enhances our ability to respond to market needs.

The products are then distributed through 44 Wholesaler Support Centers operated by, and located within, Anheuser-Busch wholesalerships. The centers receive pallet-sized shipments of small-volume items and reconfigure them for delivery to the ultimate wholesaler, resulting in a reduction in out-of-stock items and better inventory control. This process also reduces freight costs for both Anheuser-Busch and its wholesalers.



Although beer is the most common beverage packaged at Anheuser-Busch breweries, cans are occasionally filled with water instead.

Such was the case in 1997, when more than 5.5 million cans of fresh drinking water were filled by Anheuser-Busch for delivery to flood and tornado victims in Ohio, Kentucky, West Virginia, Mississippi and North Dakota.

Since 1993, Anheuser-Busch has donated more than 20 million cans of fresh drinking water to natural disaster victims around the country.

As we move into 1998, two favorable demographic trends should positively affect beer industry volume growth. First, after several years of decline, the number of 21-year-olds will begin to rise. And second, as baby boomers (age 34-52) grow older they are maintaining consumption levels to a greater degree than their predecessors.

Anheuser-Busch is well positioned to take advantage of these trends and increase market

share, with a number of significant strengths that give us a competitive edge.

These include:

- The industry's leading brands, Budweiser and Bud Light, along with a complete portfolio of beers
- The most effective marketing programs in the industry
- The highest-quality beers on the market, enhanced through the freshness campaign
- The industry's strongest wholesaler system, which we continue to enhance
- And effective productivity improvement efforts that continue to drive costs out of the system and contribute to further margin expansion

These fundamental strengths of our domestic beer operation are compelling, and we believe that over the long term they will provide us with a solid foundation for continued growth.



INTERNATIONAL BEER OPERATIONS

In 1997, Anheuser-Busch International continued to make significant inroads in the global market. Anheuser-Busch brands are currently sold in more than 80 countries, and Budweiser is brewed locally in 11 markets. In 1997, international sales volume grew 13.4% to 7 million barrels. Currently, more than 1,300 employees work in the international marketplace for Anheuser-Busch.

We continue to follow a two-pronged strategy in the global marketplace. First, we are building Budweiser into a leading international premium beer brand. And second, we are building a portfolio of equity partnerships with leading brewers in high-growth markets.

In the area of brand development, 1997 saw a number of significant accomplishments.

In the United Kingdom—our largest market outside the United States, at 1.5 million barrels—Budweiser continued to grow at double-digit rates and strengthened its position as the leading premium packaged lager in that country. At the end of 1997, Budweiser had a 2.9% share of the total market and a 16% share of the premium packaged lager market. Bud Ice, introduced in the United Kingdom in 1996, has shown excellent growth and already holds a 25% share of the ice beer category. It is the No. 2 ice beer in the country.

With the help of our brewing and distribution partner, Guinness Ireland Group, Budweiser continued double-digit growth for the 12th consecutive year in the Republic of Ireland. The brand is now a strong No. 2 in the lager category with a 25.4% market share. In Northern Ireland, Budweiser draught beer was introduced in 1996 by Guinness and is now the leading premium lager.

In the continental European countries of Spain, Italy and France, Budweiser growth continues to be strong. The brand is gaining distribution, sales volume and market share, thanks in part to our strong partnerships with local brewers Damm, Peroni and Kronenbourg, respectively.



The United Kingdom remains Anheuser-Busch's most profitable international market, with volume up 17% in 1997, exceeding 1.5 million barrels. Anheuser-Busch's recent purchase of the remaining interest in the Scottish Courage brewing joint venture allows greater participation in the profit stream of this region and increases management flexibility. Budweiser is the No. 1 premium packaged lager in the United Kingdom.

lished product. Surveys indicate that consumers are becoming increasingly aware that “fresh beer tastes better” and that “Anheuser-Busch has the freshest beers.”

Another major accomplishment during 1997 was the development of an amended equity agreement with our wholesalers. We believe this agreement significantly enhances our competitive position and provides a solid platform for brand equity-building efforts. In this era of brand proliferation, the agreement recognizes that both distribution and retail sales execution are critical to brand visibility and image, and it encourages wholesalers to more sharply focus on activities and practices that enhance these efforts.

For example, the amended agreement better defines the role of the equity agreement manager and establishes detailed performance standards to reflect the competitive situation in today's beer business. We believe this agreement is the best of its kind in the industry and will help all of us work more effectively in today's changing competitive environment.

Also on the wholesaler front, we introduced a voluntary “share of mind” incentive program, which encourages greater commitment to Anheuser-Busch products by offering incentives to wholesalers to exclusively handle our beer brands.

In 1998 we will devote additional resources to building brand equity, significantly increasing media expenditures. Among our most notable efforts, we were the exclusive beer sponsor of the Winter Olympic Games telecast in the United States in February and will be the exclusive beer sponsor of the World Cup in June and July. Both of these high-profile events provide worldwide exposure for Budweiser and position our flagship product as a global brand.

We also continue to emphasize productivity efforts, encouraging our employees to find new ways to help us operate at higher efficiency. To date, these efforts, along with our brewery modernization program, have achieved most of our \$300 million annual savings objective.



Anheuser-Busch has expanded its alliance with the Kirin Brewery Company of Japan and is now brewing Kirin Lager, Kirin Ichiban and Kirin Light at its Los Angeles brewery. The beers are distributed in the United States through Anheuser-Busch's wholesaler network.

This venture marks the first time that Anheuser-Busch has brewed foreign brands for sale in the United States. The new joint venture is 90% owned by Kirin. The two companies are involved in a separate joint venture in Japan, which is 90% owned by Anheuser-Busch. Budweiser continues to be the most popular foreign beer in Japan.

BEER OPERATIONS

Canada remains one of the strongest foreign markets for Budweiser, and in 1997 the brand reached nearly 10% market share through combined efforts with our partner Labatt.

Budweiser continues to make inroads in Latin America and is the No. 1 international brand in Paraguay, Brazil, Colombia and Honduras. Our local production and distribution agreement in Argentina with CCU has helped the brand make good progress in that country.

In China, annual sales of Budweiser achieved the 1-million-barrel milestone for the first time—double the brand's volume in 1996. After two full years of sales, the brand is now the No. 1 foreign beer brand in more than half of the cities where it is sold.

Although 1997 sales in Japan were disappointing, Budweiser continues to dominate the foreign beer segment with a 48% share through our joint venture operation with Kirin. The brand has a 1% share of Japan's overall beer market.

Finally, Budweiser was introduced in the Philippines under a local production and marketing agreement with Asia Brewery. In its first full year in the Philippines, Budweiser established itself as the largest-selling premium beer brand.

In addition to these local brand development achievements, our international beer operations continue to focus on establishing a worldwide presence and premium quality image for the Budweiser brand; building critical-mass volume; strengthening international business skills; and developing a strong team of experienced international managers.

We believe our success in the future will depend on our ability to build on our accomplishments while following these principles. In doing so, we will stay focused on what we believe are the three ingredients for success:

- First, we will capitalize on the refreshingly different taste and exceptional drinkability of Budweiser. The worldwide trend toward lighter beverages is very favorable to Budweiser's acceptance in global markets. The taste preference for beer is shifting toward lighter, less-bitter brews. Budweiser fits this preference perfectly. As a result, drinkers all over the world are choosing the refreshing taste of Budweiser.



***I**n China—which will become the world's largest beer market within the next five years—Budweiser sales continue to exceed expectations. It is now the leading foreign brand in more than half of its markets, and sales more than doubled in 1997.*

Located in Wuhan—China's fifth-largest city and a major transportation hub—Anheuser-Busch's brewery is currently being doubled in size. When completed in the summer of 1998, it will have a capacity of 2.1 million barrels. The expansion was implemented ahead of schedule to meet rapidly growing demand for Budweiser.

•Second, we will build and maintain a global brand image, communicating Budweiser's important credentials to beer consumers around the world. We stress four key points in this communication. First, Budweiser is a premium-quality beer, produced using an all-natural process and ingredients. Second, Budweiser has a distinctively clean, refreshing and drinkable taste. Third, Budweiser is a classic American brand. And fourth, Budweiser is an icon brand with stature and scale.

Although many methods are used to communicate this positioning, the most visible is advertising. We have significantly increased our global advertising, with strategic buys on CNN, NBC-International, ESPN and TNT International. These global media properties air programming that is popular with our target audience of adult beer drinkers.

In addition, we continue to increase our sponsorship of sports, including the Budweiser Irish Derby, the Olympics and various soccer events, including the 1998 World Cup in France and the Copa America—the “world cup” of Latin America.

•And third, we will build strong distribution systems worldwide, which vary from market to market. For example, in Taiwan we have an export agreement with local distributors who handle the sales function. In Canada, we have a license agreement which gives our partner responsibility for sales and marketing activities. In Spain, Brazil and Japan, we have arrangements which give Anheuser-Busch the responsibility for sales and marketing. In these markets, we hire and train our own dedicated people. Finally, we have company-owned and operated brewing facilities in the United Kingdom and China, and we directly control production and all sales and marketing activities.



Budweiser, a longtime sponsor of leading soccer events around the globe, was the exclusive beer sponsor of the 1997 Copa America Tournament. This South American soccer championship is one of the world's oldest international soccer events.

As exclusive beer sponsor, Budweiser promoted its association with the tournament in advertising, promotions, point-of-sale material, packaging and merchandising. The brand also received the rights to eight on-field advertising boards for all 26 matches. With its extensive TV coverage, Copa America played a significant role in Anheuser-Busch's marketing strategy for South America.

The second part of our two-pronged strategy—building a portfolio of equity partnerships with leading brewers in high-growth markets—is also progressing well. Our objective is to maximize our participation in the profit pool in a select

BEER OPERATIONS

number of large, emerging markets that have excellent growth potential. We are accomplishing this by partnering with leading brewers in these markets.

These are not passive financial investments, but true partnerships that involve our participation. We exchange best practices in brewing, marketing, sales, operations, planning and distribution with our partners. As part of this exchange, Anheuser-Busch executives are relocated to a foreign country while the partners' executives come to the United States.

The partnerships also provide a platform for more aggressive Budweiser development. Through our partners' distribution systems and local production of Budweiser, we are able to maintain product quality and freshness, realize a more competitive selling price and achieve broader distribution. The partnership also gives our partner a brand to compete against other international premium brands in their market.

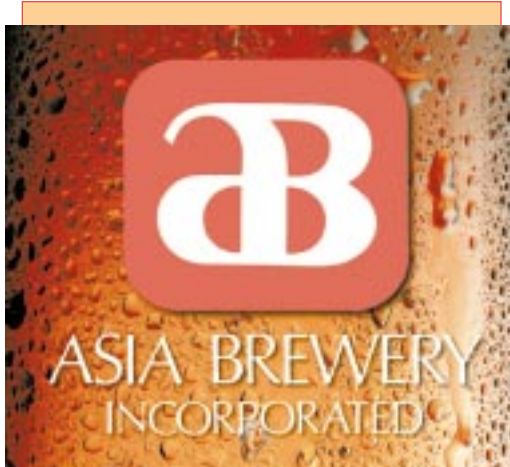
In terms of developing our international partnerships, Anheuser-Busch has targeted Asia and Latin America as key strategic markets. Many countries in both regions have favorable demographics and are adopting free-market economic systems that are helping to increase personal

incomes and discretionary spending.

The beer market in Asia, for example, has had an average compound growth rate approaching 10% over the past five years, while the beer market in Latin America has grown at a compound annual rate of nearly 5% during the same period.

These growth trends are supported by very favorable demographics in the emerging markets of these two regions. Looking to the year 2025, we expect the highest concentration of the world's primary beer-drinking population—people age 21-39—to shift significantly from developed markets to developing markets.

In the Asian region, China represents 58% of the total beer volume and provides the greatest potential for both volume and profit growth. China's beer market has been growing at a double-digit annual rate over the past five years and is expected to overtake the U.S. beer market as the world's largest within the next five years.



Anheuser-Busch's local partner in the Philippines, Asia Brewery Inc. of Manila, is now brewing Budweiser, which became available to that country's beer drinkers at the end of 1996.

The fifth-largest beer market in Asia, the Philippines offers significant growth potential for the brand. Budweiser competes in the premium segment of the Philippine beer market, with distribution focused on the major cities.

Within Latin America, Anheuser-Busch has established key investments in Mexico, Brazil and Argentina. These three countries represent 75% of the beer volume in the region.

Current brewing investments continue to perform very well. In Mexico, Modelo is a proven performer, controlling 57% of the domestic beer market, including exports. It is the country's leading beer exporter. Demographics in Mexico are also very favorable. The country is the world's seventh-largest beer market with excellent potential for future growth. By the year 2000, more than one-fourth of Mexico's population will be in the important 21-35 age bracket. This percentage is 17% higher than in 1995 and should stimulate beer industry growth in that market for a number of years.

Modelo, which has imported Budweiser since 1989 and Bud Light since 1994, is currently Anheuser-Busch's most significant equity investment. In 1993 Anheuser-Busch purchased 17.7% of Modelo and its subsidiaries. In May 1997 we increased our investment to 37%, and in June we announced our intention to exercise our remaining option to increase our ownership to 50.2%. There is disagreement between the two companies as to the purchase price of this final segment. Anheuser-Busch and the controlling shareholders of Modelo have submitted this matter to arbitration in an effort to resolve this disagreement. The arbitration process is expected to take several months. We believe our expanded investment in Modelo will significantly enhance shareholder value over the long term.



During 1997, Anheuser-Busch completed the purchase of an additional equity stake in Grupo Modelo, Mexico's leading brewer and the brewer of Corona beers. Anheuser-Busch currently owns 37% of Grupo Modelo and its subsidiaries and announced its intention to exercise its option to increase its participation to 50.2%. The company's total investment to date in Modelo is approximately \$1.1 billion. Modelo represents Anheuser-Busch's most significant equity investment.

In Brazil—South America's largest beer market and the fourth-largest beer market in the world—our equity partner is Antarctica. The country's No. 2 brewer, Antarctica has excellent distribution coverage through a network of 600 wholesalers. Anheuser-Busch currently owns a 5% stake in a new subsidiary which controls the majority of Antarctica's business, plus options to increase ownership to approximately 30%.

BEER OPERATIONS

In addition to this investment, Anheuser-Busch and Antarctica have formed Budweiser Brazil, a joint venture 51% owned by Anheuser-Busch, which markets and sells Budweiser in Brazil. Antarctica began locally brewing Budweiser in Rio de Janeiro in late 1996. This local sourcing improves product freshness, provides for product availability in Brazil's mainstream 600 ml returnable bottle, and allows Budweiser to be priced more competitively. The companies are also working together to test market in select U.S. cities a new Brazilian beer brand brewed by Antarctica—Rio Cristal.



Japanese Budweiser drinkers are now enjoying the feel and look of an innovative new package—a can with an embossed vertical label and widemouth lid. This is the first such package in that country for beer. Budweiser Japan is capitalizing on this competitive advantage through focused marketing at the point of purchase—including 3-dimensional posters—and in outdoor signage.

The Brazilian trade commission (CADE), which originally ruled against our partnership with Antarctica and called for Anheuser-Busch to divest its investment, has since revised its position and ruled the partnership to be valid, subject to certain conditions being met. We are currently in discussions with the trade commission.

Our partner in Argentina is CCU, the No. 2 brewer in Argentina and the largest brewer in Chile. We currently have approximately a 4%

interest in CCU-Argentina, with options to go to 20%. Budweiser is CCU-Argentina's flagship brand and is distributed extensively in that country. Budweiser has achieved a 4.7% share in Buenos Aires in its first full year of local production.

On the other side of the world, our goal in China is to move into the ranks of the top 10 brewers within 10 years, with Budweiser as the clear premium category leader. We own 86.6% of the Budweiser Wuhan International Brewing Company, and are currently doubling brewery capacity—to 2.1 million barrels annually—to meet the current, near-term demand for Budweiser. The expansion will be completed in the summer of 1998. In addition to increased marketing support in China, we have established a 175-person sales force dedicated to promoting Budweiser.

Within the next five years, our goal is for the international company to contribute 20-30% of the total corporation's growth in earnings before interest and taxes. Given our current international trends for Anheuser-Busch brands and our increased stake in Modelo, we are well on the way to achieving this objective.

A LEGACY of QUALITY



Since 1864, when Adolphus Busch joined the fledgling brewery that would later become Anheuser-Busch, a Busch family member has been the guiding force behind the company.

While the company's early years were demanding, Adolphus Busch proved up to the challenge. His keen vision, bold initiative, marketing savvy and passionate commitment to quality were his legacy to those who followed, and the high standards he established have been adhered to by each succeeding generation.

The distinctive contributions made by each of the company's leaders make it clear that the history of Anheuser-Busch isn't a story about a company. It is a story about people.

People with dreams and perseverance and a passion for the brewing business, who have led the company through challenging and turbulent times.

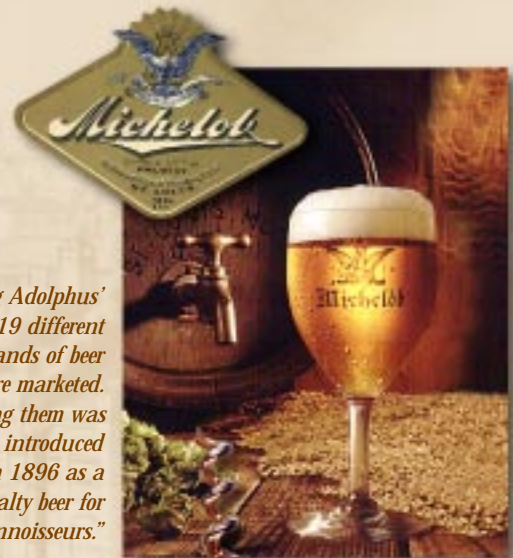
This is their story.





Born in Germany in 1839, Adolphus Busch was the second-youngest of 22 children. He came to America at the age of 18 to seek his fortune and settled in St. Louis. There he found his wife—Lilly Anheuser—and his destiny.

During Adolphus' tenure, 19 different brands of beer were marketed. Among them was Michelob, introduced in 1896 as a "specialty beer for connoisseurs."



In keeping with his image as a flamboyant marketer, Adolphus often gave business associates a pocketknife—containing a peephole featuring his portrait—instead of the more traditional business card.



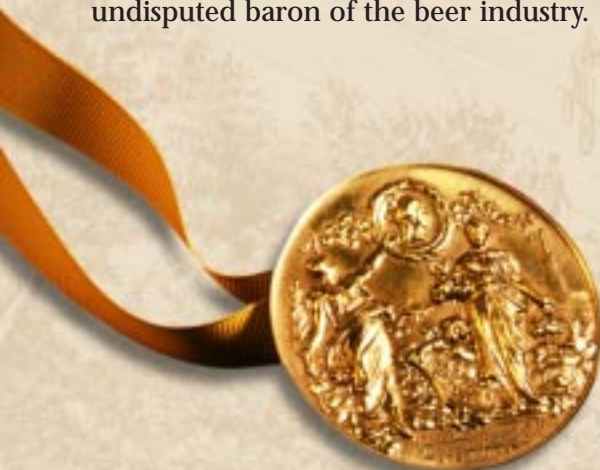
In the 1870s, a brewer's capacity was limited by the amount of "natural refrigeration" (cave space) available for lagering. Adolphus was the first brewer to apply the new technology of artificial refrigeration to the brewing industry, freeing him from the constraints imposed by limited cave space.

Adolphus Busch *The Creator and Builder*

Era of Leadership: 1869-1913

It was a time of possibilities, an era of opportunity, when those who were bold and daring could achieve great things. It was a time when the frontiers in business were as challenging as those of the "Wild West."

Anheuser-Busch founder Adolphus Busch was the right man for the time. His vision, courage and energy shaped an industry as he rose to prominence during America's Gilded Age. While his beginnings were modest, by the end of his life he was recognized as the undisputed baron of the beer industry.



In 1901, for the first time, Anheuser-Busch brewed more than 1 million barrels in a single year and became America's largest brewer. Adolphus' strict insistence on quality paid dividends as Budweiser won numerous gold medals at various world fairs and exhibitions.



Adolphus was as accomplished at marketing as he was at production. Among his most famous promotional efforts was the lithographed print of Custer's Last Fight, which was prominently displayed in bars across America.

To distribute Budweiser nationally, Adolphus was the first in the industry to use refrigerated railcars, ultimately amassing a fleet of 850. He also built a network of railside ice houses where beer could be kept cool until needed in the local market. As a result of these innovations, he became the first brewer to establish a national system for beer distribution.



Adolphus expanded Budweiser's reach far beyond U.S. borders. Before Prohibition, Anheuser-Busch shipped product to 125 markets in 44 countries on six continents.

Within five years of joining his father-in-law's struggling brewery, Adolphus doubled capacity. Among the innovations he introduced to the U.S. brewing industry was pasteurization, which significantly expanded the shelf life of beer. As a result, his beers could now be shipped far beyond St. Louis.



A visionary in many ways, Adolphus foresaw the encroaching shadow of Prohibition. To bolster beer's image, as early as 1889 Anheuser-Busch began using the "true temperance beverage" theme in its printed catalogues. In addition, at Adolphus' direction the brewery began developing nonalcohol beverages—just in case.

Working with his good friend Carl Conrad, Adolphus developed America's first national beer, Budweiser, which soon became the brewery's flagship brand.





Under August Sr.'s direction, a number of beverage products were introduced in the period leading up to and including Prohibition to help keep the company solvent. The most famous of these was Bevo, a nonalcohol brew. At the peak of its popularity, more than 5 million cases were sold annually in more than 20 countries.



When national Prohibition was repealed in 1933, it was truly a moment to celebrate. While more than half of the nation's brewers had closed their doors forever when Prohibition began, Anheuser-Busch survived thanks to the perseverance and innovative leadership of August Sr.



To celebrate the repeal, August Jr. presented his father with a team of Clydesdales and a turn-of-the-century beer wagon. The popularity and promotional potential of the hitch quickly became apparent, and soon it was deployed to deliver post-Prohibition-era beer to numerous public figures, including Franklin Roosevelt at the White House. Requests started coming in from around the country for appearances, and an enduring symbol of quality was born.

August A. Busch Sr. *The Preserver*

Era of Leadership: 1913-1934

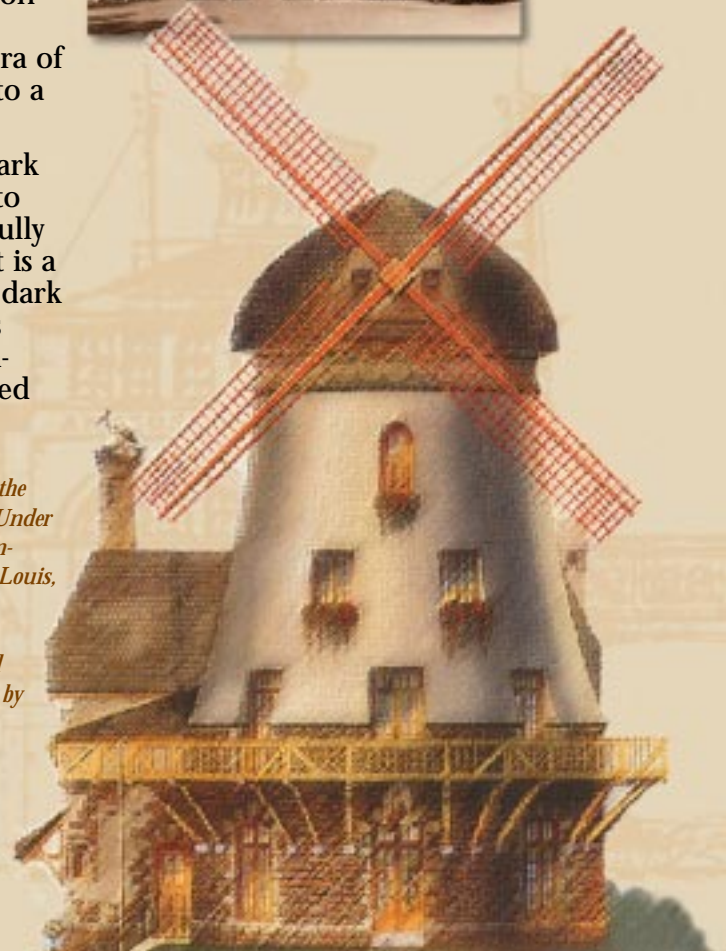
It was an era of upheaval in America and in the brewing industry. World War I, Prohibition and the Great Depression, along with increasing government restrictions on business, all contributed to the sense of uncertainty and unsteadiness that rippled through the country. The great era of growth and prosperity for the U.S. brewing industry came to a grinding halt.

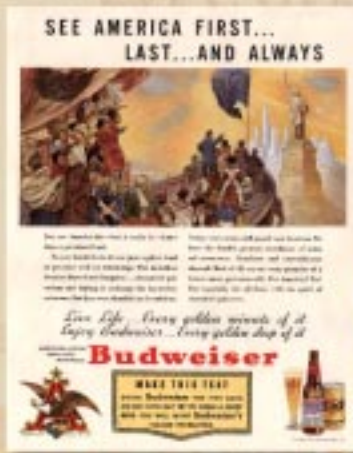
It was August A. Busch Sr.'s destiny to preside over this dark period in Anheuser-Busch history. Instead of contributing to the company's growth—the role for which he'd been carefully groomed—he found himself struggling to simply survive. It is a tribute to his ability and determination that through these dark days, he was able to keep the company solvent and workers employed. Innovation was no less important for this accomplishment than it was for the growth and expansion achieved by Adolphus.



During Prohibition, Anheuser-Busch built truck bodies and refrigerated cabinets; manufactured barley malt syrup and ice cream; and entered the baker's yeast business. From 1920-1927, more than 26 new products—including a dealcoholized version of Budweiser—were tried to keep the company in business.

Like his father, August Sr. firmly believed that beer was the true beverage of moderation. Under his direction the company constructed the Bevo Mill in St. Louis, which was an effort to convince Americans that beer was not something consumed only in saloons, as promoted by Prohibitionists, but also in family-oriented, "respectable" eating establishments. The Bevo Mill was one of many efforts to help educate people about beer's wholesome role in society.





In 1937, Adolphus III ran a special ad campaign that focused not on his products, but on restoring people's confidence in America and the future. The campaign appeared in nearly 1,000 newspapers and magazines nationwide and received high praise from both government and business leaders.



Adolphus III committed the company fully to the war effort. The Beer Division voluntarily gave up its West Coast markets to free trains for military shipments. In addition, the company converted some operations to produce diesel engines and glider parts for the military, and a special ad campaign supporting the war effort was developed.



During World War II, Adolphus III produced a newspaper to highlight the efforts of employees fighting overseas and to keep all employees informed about company activities. This "hometown" newspaper reflected the sense of "family" that has always been part of the Anheuser-Busch tradition.



It fell to Adolphus Busch III to regain the momentum lost during Prohibition. It was an uphill battle, but with diligent effort and an uncompromising commitment to quality, he saw sales increase from 1.1 million barrels to 3 million barrels during his tenure. This increase was due, in part, to his use of metal cans as a new way of packaging and marketing Budweiser.

Adolphus Busch III *The Reorganizer*

Era of Leadership: 1934-1946

Though Prohibition was over, the Depression still had a grip on America. With the advent of World War II, however, the U.S. economy took an upswing.

But the changing economic landscape did little to help Anheuser-Busch recover from the devastating effects of Prohibition. The Depression left people too poor to buy much beer, and grain—needed for beer production—was rationed due to the war effort, limiting production. Nevertheless, Adolphus III found ways to promote company growth while establishing an admirable record of civic responsibility.

Employees also supported the war effort. In fact, their war bond purchases paid for two B-17 bombers—“Miss Budweiser” and “Busch-wacker.” More than 1,500 Anheuser-Busch employees served in the armed forces, including August A. Busch Jr.



Adolphus III continued to support the yeast business begun during Prohibition. Under his direction, Anheuser-Busch became the nation's largest producer of baker's yeast.



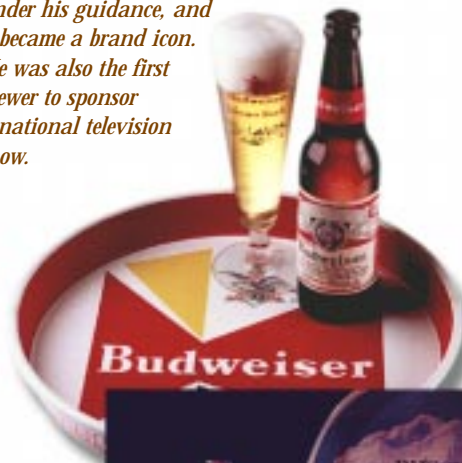


Following World War II, August Jr. set out to develop a national system of beer production to reduce shipping costs and ensure quicker delivery of products. In 1951 he opened the first regional brewery in Newark, N.J. During his tenure, eight additional breweries were opened.



When Anheuser-Busch's leadership role in the brewing industry temporarily faltered in 1956, August Jr. spent a year traveling all over the country by rail, visiting every Anheuser-Busch wholesaler. In 1957 Anheuser-Busch regained its leadership position—and hasn't relinquished it since.

Like his grandfather, August Jr. had a keen eye for marketing. The famous Budweiser bowtie was introduced under his guidance, and it became a brand icon. He was also the first brewer to sponsor a national television show.



August A. Busch Jr. *The Expander*

Era of Leadership: 1946-1975

Once again it was a time of business expansion and growth as post-war America boomed. Opportunity was in the air, and the American dream of a house in the suburbs could really come true. It was an optimistic era of "I Like Ike" and enthusiasm about the future.

August A. Busch Jr., like his grandfather, took advantage of the burgeoning economy and growing market. And, also like his grandfather, he presided over an era of great growth and success for the company. During his tenure annual sales rose dramatically, from 3 million barrels to 34 million barrels.

Busch beer—the first new brand in nearly 40 years—was successfully introduced in selected markets around the country.



August Jr. vertically integrated the company in 1973 with the establishment of Metal Container Corporation to provide the beer company with a high-quality and consistent supply of cans.



Concern for the environment, formalized by August Jr. in 1970, has long been a part of Anheuser-Busch's heritage.



In 1959, August Jr. diversified the company in a new direction—theme parks—with the opening of Busch Gardens in Tampa. A second park—in Williamsburg, Va.—opened in 1975.



Under the direction of August Jr., in 1967 the company developed an unprecedented Wholesaler Equity Agreement, which gave independent Anheuser-Busch wholesalers a degree of security never before enjoyed in the brewing industry.



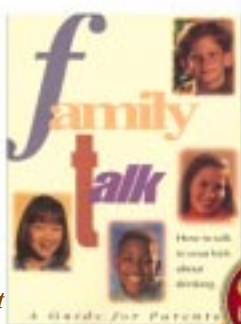
Under the leadership of August III, four new breweries are opened. Anheuser-Busch breweries are among the most technologically sophisticated in the industry.



In 1975, August III inaugurated annual employee communications meetings, stressing the importance of employee involvement to the company's success. By the 1997 meetings, 80% of employees were company "owners" through the 401(k) plan.



Bud Light, the nation's most popular light beer, was introduced in 1982. It is second only to Budweiser as the nation's favorite beer.



In keeping with the company's long-standing commitment to encourage responsible consumption, in 1982 August III authorized the creation of a broad-based "Know When to Say When" program which encompasses dozens of ongoing efforts to fight alcohol abuse and underage drinking.



August A. Busch III *The Modernizer*

Era of Leadership: 1975-Present

Computerization. Total quality management. Global marketplace. Those are the buzzwords of the late 20th century. Though the challenges are many in today's rapidly changing business environment, so are the opportunities.

August A. Busch III presides over Anheuser-Busch at a time which, in many ways, mirrors that of his great-grandfather. It is a time of expanding markets and exciting possibilities. If Adolphus Busch made Budweiser a national brand and a household name, August III is determined to make Budweiser an international brand with global name recognition. Like Adolphus, he believes that quality, flexibility, boldness and innovative thinking are the keys to success. And just like his great-grandfather, he believes in a bright future for Anheuser-Busch.

A renewed interest in specialty and micro brews recalls the days of the company founder, when Adolphus developed beers to meet every taste preference. Today the company again offers a broad portfolio of products.

Recognizing the favorable synergy between the beer business and theme parks—which provide a positive setting in which to showcase Anheuser-Busch—August III approved the acquisition of Sea World in 1989.



Like his great-grandfather, August III has a keen interest in the international market. At his direction, significant inroads have been made. Budweiser is now brewed in 11 countries and available in more than 80 countries.

KING OF BEERS

Though Anheuser-Busch markets a variety of beers today, there remains only one king—Budweiser. The best-selling beer in the world, it is the epitome of Anheuser-Busch tradition, quality and heritage. An enduring legacy from Adolphus Busch, it is carefully guarded by each succeeding generation. Now, as in Adolphus' day, it is the heart of Anheuser-Busch.



Budweiser





The Anheuser-Busch story is one of remarkable achievement.
*It is a story that embodies solid values—family tradition, vision, courage and integrity.
And it clearly demonstrates that hard work, commitment and a passionate
belief in quality can form the foundation of success.*

*It has been nearly a century and a half since the company's founding.
And more than 120 years have passed since Adolphus Busch introduced Budweiser.
Much has changed during those years. But the spirit of Adolphus, who dreamed great dreams and then
found a way to make them come true, remains unchanged, as vibrant today as it was a century ago.
That is his enduring legacy to the company he loved.*

That is Anheuser-Busch.



Significant Events in Anheuser-Busch History

- | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| 1852 Bavarian Brewery established in St. Louis, Mo. | 1955 Busch beer introduced |
| 1857 Adolphus Busch, a German immigrant, arrives in St. Louis | 1959 Busch Gardens in Tampa opens |
| 1860 Eberhard Anheuser acquires Bavarian Brewery | 1964 Ten million barrels in annual production |
| 1861 Adolphus Busch marries Eberhard Anheuser's daughter, Lilly | 1967 St. Louis brewery declared National Historic Landmark Anheuser-Busch develops Wholesaler Equity Agreement |
| 1864 Adolphus Busch begins working at his father-in-law's brewery | 1973 Metal Container Corporation established as subsidiary |
| 1872 First use of A & Eagle trademark on packaging | 1975 Busch Gardens in Williamsburg opens |
| 1876 Budweiser introduced | 1976 100th anniversary of Budweiser introduction |
| 1879 Name of brewery changed to Anheuser-Busch Brewing Association | 1981 Anheuser-Busch International, Inc. established as Anheuser-Busch Companies subsidiary |
| 1880 Eberhard Anheuser dies; Adolphus Busch becomes president | 1982 Bud Light introduced "Know When to Say When" responsibility campaign introduced |
| 1881 First use of artificial refrigeration | 1983 50th anniversary of Budweiser Clydesdale hitch |
| 1896 Michelob introduced | 1984 Budweiser introduced through licensed brewing in England and Japan |
| 1901 One million barrels in annual production | 1986 Anheuser-Busch breaks billion-barrel mark of beer brewed since founding of company |
| 1913 Adolphus Busch dies | 1989 Sea World purchased |
| 1916 Bevo introduced | 1993 Anheuser-Busch invests in Grupo Modelo (Corona beer) in Mexico |
| 1920 National Prohibition begins; the first of a long line of nonbeer products introduced, including ice cream, barley malt syrup, ginger ale, root beer, chocolate and grape-flavored beverages, corn syrup, truck and bus bodies, refrigerated cabinets, baker's yeast and dealcoholized Budweiser | 1994 Bud Light becomes best-selling light beer in United States, second only to Budweiser among all brands |
| 1933 National Prohibition ends; Budweiser Clydesdales introduced | 1995 Company purchases majority interest in Chinese brewer, Budweiser Wuhan International Brewing Company |
| 1936 Budweiser sold in cans for first time | 1997 Annual worldwide beer volume exceeds 100 million barrels for first time (including equity volume) |
| 1950 Ground breaking for first regional brewery in Newark, N.J. Dalmatians first ride on Clydesdale hitch | |
| 1952 100th anniversary of founding of company | |



ANHEUSER-BUSCH COMPANIES



ENTERTAINMENT OPERATIONS



BUSCH GARDENS



In 1997, Busch Entertainment Corporation (BEC) achieved a significant milestone, exceeding \$100 million in operating profits for the first time. BEC also achieved record attendance, revenue and profit, hosting nearly 21 million guests during the year. All nine parks exceeded 1996 attendance levels. This is the sixth consecutive year of record performance for our family entertainment subsidiary.

Our theme parks continue to adeptly capitalize on their strengths as both entertainment and educational facilities. Our nine parks, which include Busch Gardens and Sea World, also offer a positive setting in which to showcase our beer products and promote our quality image to millions of visitors annually.



According to the Wall Street Journal, Busch Gardens Tampa Bay's new "Edge of Africa" attraction is an "innovative, total immersion environment...a truly excellent example of the kinds of things that zoological visionaries can do."

This remarkable home for lions, hyenas, hippos, meerkats and baboons is among the most sophisticated zoological attractions ever constructed. Busch Gardens guests seem to agree. In 1997, the park exceeded its 1996 record performance.

Busch Entertainment parks maintain the world's largest zoological collection. More than 65,000 animals are cared for at parks across the United States.

ENTERTAINMENT OPERATIONS

Thanks in large part to break-through new attractions such as “Wild Arctic” and “Edge of Africa,” as well as unmatched guest service and strong marketing programs, each of our nine theme parks exhibited a solid performance in 1997.



One of the most significant new attractions in Busch Entertainment history is nearing completion at Sea World of Florida. “Journey to Atlantis” will immerse guests in the mystery of the lost city of Atlantis, combining roller-coaster and water-ride technology with special video, lighting and theatrical effects. “Journey to Atlantis” complements the unique animal attractions that have long made Sea World a favorite Orlando destination. The latest in a series of world-class attractions that are redefining Busch Entertainment’s flagship park, it will open in spring 1998.

Our year-round operations—Sea World of Florida, Busch Gardens Tampa Bay and Sea World of California—made a particularly strong showing. In fact, Busch Gardens Tampa Bay once again exceeded the 4-million-guest mark, the second consecutive year it has achieved this milestone.

Our seasonal parks also had a good year. Sea World of Texas recorded substantial gains, due in large part to the introduction of a well-received two-year pass and a thrilling new inverted roller coaster, “The Great White.” Attendance at Busch Gardens Williamsburg was also boosted by a new roller coaster, “Alpengeist”—the tallest and longest inverted roller coaster in the world. At Sea World of Ohio, a new high-tech “4-D” film attraction called “Pirates,” which stars Leslie Nielsen and Eric Idle, had a positive impact on the park’s 1997 performance. Our remaining parks—Sesame Place, Water Country USA and Adventure Island—all completed their seasons well above projections.

In addition, BEC’s food and merchandise groups generated record sales and profit in 1997.



When Busch Gardens Williamsburg and Sea World of Texas opened their gates for the 1997 season, two of the most thrilling roller coasters ever constructed were waiting inside.

“Alpengeist,” the tallest inverted roller coaster on earth, has been crowned the No. 1 roller coaster in the world by People magazine. “The Great White” is the first roller coaster ever built at a Sea World park.



With three parks located in the key Central Florida marketplace, this region remains an area of focus for BEC. We continually look for new ways to increase attendance and create synergy among our Florida parks. The Orlando FlexTicket—a pass that allows multiple visits to Sea World of Florida, Universal Studios Florida, Wet-N-Wild and Busch Gardens Tampa Bay—is one such example. This cooperative effort has generated substantial attendance in this key marketplace.

During the year BEC opened new attractions in all nine parks, including zoological habitats like “Wild Arctic” at Sea World of California and “Edge of Africa” at Busch Gardens Tampa Bay. All of the new attractions opened on schedule and operated virtually flawlessly throughout their inaugural season.

New attractions planned for 1998 include Sea World of Florida’s “Journey to Atlantis,” the most significant new attraction in BEC history; and “Akbar’s Adventure Tours,” a simulator ride/film at Busch Gardens Tampa Bay.

New attractions are a critical component in attracting both new and repeat business, and BEC is committed to offering its guests innovative experiences that are both entertaining and educational.

In addition to U.S. marketing, BEC aggressively promotes its parks internationally with advertising, publicity, sales and consumer promotions. These efforts have clearly paid dividends because a significant percentage of the parks’ overall attendance now comes from outside the United States. The parks draw particularly well from the United Kingdom, Canada and Latin America. In fact, Brazil is an especially strong market for our Florida parks. In 1997, Busch Gardens Tampa Bay and Sea World of Florida hosted more than 600,000 guests from Brazil.



Sea World and Busch Gardens have become fixtures on national children’s television in recent months. In addition to the premiere of *Shamu TV* on the Discovery Channel, Animal Ambassador Julie Scardina has made numerous national television appearances to showcase Sea World and Busch Gardens animals.

BEC also continues to support wildlife conservation and rescue and research efforts. In fact, Sea World rescues, rehabilitates and releases more marine animals than any other organization in the world. We also continue to work actively to save the highly endangered Florida manatee from extinction. Both Sea World and Busch Gardens Tampa Bay parks are accredited by the American Zoo and Aquarium Association, which administers Species Survival Plans—an effort intend-

ENTERTAINMENT OPERATIONS

ed to study and preserve, in zoos and aquariums, species that are threatened or endangered in the wild.

Sea World is home to 20 endangered species, and Busch Gardens offers a



Shortly after sundown on January 11, 1997, Sea World of California veterinarians received a most unusual patient—a 1,600-pound beached gray whale calf orphaned shortly after birth. In the months since her arrival, J.J. has made remarkable progress, gaining more than 16,000 pounds. If all goes according to plan, she will be hardy enough for release back to the wild in March 1998.

J.J. is among the hundreds of animals to benefit each year from Sea World's commitment to and expertise in rescue and rehabilitation.

refuge to 40 endangered species. Both parks are dedicated to protecting and conserving the environment and endangered wildlife as well as educating the public about the need for wildlife conservation and preservation.

In addition to in-park programs, which reach more than 10 million people each year, the parks have found new and innov-

ative ways to reach the public with their conservation message. Sea World, for example, maintains one of the most accessed education sites on the World Wide Web and produces the Emmy-award-winning "Shamu TV" on Animal Planet.

BEC also maintains partnerships with national environmental and research organizations, including the American Oceans Campaign, Center for Marine Conservation, National Fish and Wildlife Foundation, Hubbs-Sea World Research Institute and The Nature

Conservancy.

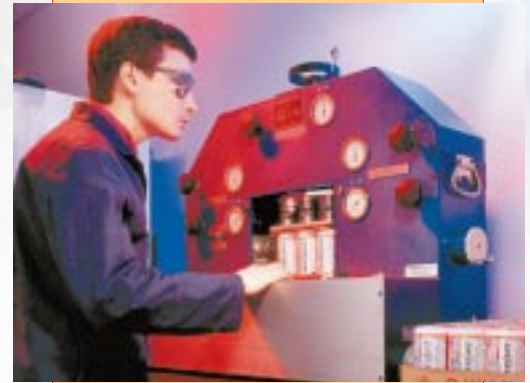
In 1998 BEC will continue to enhance its position as a worldwide leader in the theme park industry as it aggressively carries out its mandate to provide guests with experiences that both entertain and enrich.

PACKAGING OPERATIONS

In 1997, Anheuser-Busch's packaging operations continued to support the beer company by developing and providing high-quality, low-cost and innovative packaging designed to enhance beer sales. In addition to supplying more than 60% of Anheuser-Busch's domestic can and lid requirements, Metal Container Corporation (MCC) is also a major supplier to the soft-drink industry. More than 21 billion cans and 22 billion lids were produced in 1997.

Anheuser-Busch Recycling (ABRC) is the largest aluminum recycler in the world, a position it has held for 10 consecutive years. It recycled more than 648 million pounds of aluminum in 1997, equal to 20 billion cans. Precision Printing and Packaging produced more than 16 billion labels for the second consecutive year and improved quality and delivery.

Vertical integration provides a significant competitive advantage and remains an important part of Anheuser-Busch's business strategy. Our packaging operations provide more than \$100 million in annual operating profits and continue to support our beer company's ability to manage cost and quality.



The packaging group opened a Packaging Innovation Center in St. Louis in 1997. The new facility provides research capabilities for improving beer and soft-drink containers. It houses five research laboratories and a separate pilot plant for development of manufacturing processes and the manufacture of test packaging. Research and engineering personnel at the center focus on improving existing packages and on exploring the possibilities of entering new packaging markets.

PACKAGING OPERATIONS

Cans and lids represent Anheuser-Busch's largest packaging cost component, accounting for more than 22% of cost of goods sold for domestic beer operations. MCC strengthens the beer company's ability to manage this key cost component.

In 1997, MCC sales were flat vs. 1996. While MCC lowered prices, it further reduced costs by continued productivity improvements and reduced distribution costs.



An innovatively designed larger-opening lid, introduced by Metal Container Corporation in 1997, has been well received by beverage consumers. In fact, it is expected to become the industry standard for beer cans. The unique "figure 8" design has proven superior to those of its competitors.

One of the biggest challenges to the can business continues to be the increasing competition from other packages, specifically plastic in the soft-drink industry and glass in the brewing industry. MCC is committed to adding value to the aluminum can, including finding ways to increase its marketing appeal to beverage consumers.

One such accomplishment in 1997 was the introduction of the smooth-pour lid, described in the accompanying sidebar. Registered embossed cans for test in domestic and international markets were also introduced. Another significant accomplishment was the opening of a new Packaging Innovation Center in St. Louis—more fully described in the sidebar on page 31—which under-

scores the packaging group's commitment to beverage packaging innovation and continuous improvement.

In 1997, ABRC continued to support Anheuser-Busch's beer operations by helping to reduce container costs and provide a positive alternative to mandatory deposits. As the world's largest recycler of aluminum beverage containers, ABRC recycled the equivalent of more than 125% of the beer cans sold by Anheuser-Busch during the year and improved its operating results.

Precision remains the largest label provider for the domestic beer industry and supplies printed folding cartons to a number of industries. While Precision attained significant improvement in quality and delivery in 1997, it turned in a disappointing financial performance due to industry overcapacity and an aggressive pricing environment. Corporate offices were moved to St. Louis to take better advantage of packaging group resources based there. At year end, the subsidiary's folding carton operation in Paris, Texas, was put up for sale.

1997 FINANCIAL REVIEW

Brewed by our original all natural process
Choicest



*THE WORLD,
RENOWNED*

*BUDWEISER
LAGER BEER*

Contents

**Management's Discussion and Analysis of Operations
and Financial Condition**

Responsibility for Financial Statements

Report of Independent Accountants

Consolidated Balance Sheet

Consolidated Statement of Income

Consolidated Statement of Changes in Shareholders Equity

Consolidated Statement of Cash Flows

Notes To Consolidated Financial Statements

Financial Summary—Operations

Financial Summary—Balance Sheet and Other Information



ANHEUSER-BUSCH COMPANIES



1997 FINANCIAL HIGHLIGHTS ANHEUSER-BUSCH COMPANIES

(In millions, except where noted)

| Year Ended December 31, | 1997 (1) | 1996 (2) | % Change |
|---------------------------------------------------------------|------------|-------------|----------|
| Barrels of beer sold: | | | |
| Domestic..... | 89.6 | 88.9 | .7 |
| International | 7.0 | 6.2 | 13.4 |
| Worldwide..... | 96.6 | 95.1 | 1.6 |
| As reported, including 1996 Cardinal gain: | | | |
| Gross sales..... | \$12,832.4 | \$ 12,621.5 | 1.7 |
| Excise taxes..... | 1,766.2 | 1,737.8 | 1.6 |
| Net sales..... | 11,066.2 | 10,883.7 | 1.7 |
| Operating income..... | 2,053.0 | 2,083.8 | (1.5) |
| Income from continuing operations..... | 1,179.2 | 1,156.1 | 2.0 |
| Diluted earnings per share from continuing operations..... | 2.36 | 2.27 | 4.0 |
| Effective tax rate..... | 38.4% | 38.9% | (.5)% |
| Excluding 1996 Cardinal gain: | | | |
| Operating income..... | \$ 2,053.0 | \$ 2,029.1 | 1.2 |
| Income from continuing operations..... | 1,179.2 | 1,122.7 | 5.0 |
| Diluted earnings per share from continuing operations..... | 2.36 | 2.21 | 6.8 |
| Return on shareholders equity..... | 29.2% | 29.2% | — |
| Return on capital employed..... | 13.7% | 14.1% | (.4)% |
| Fixed charge coverage..... | 7.3x | 7.9x | (.6)x |
| Total assets..... | \$11,727.1 | \$ 10,463.6 | 12.1 |
| Long-term debt..... | 4,365.6 | 3,270.9 | 33.5 |
| Shareholders equity..... | 4,041.8 | 4,029.1 | .3 |
| Total debt to total capitalization ratio..... | 51.9% | 44.8% | 7.1% |
| Capital expenditures..... | 1,199.3 | 1,084.6 | 10.6 |
| Depreciation and amortization..... | 683.7 | 611.5 | 11.8 |
| Common dividends paid..... | \$ 492.6 | \$ 458.9 | 7.3 |
| Per share..... | 1.00 | .92 | 8.7 |
| Total taxes..... | 2,675.3 | 2,682.8 | (.3) |
| Weighted average shares outstanding: | | | |
| Basic..... | 492.6 | 499.1 | (1.3) |
| Diluted..... | 499.7 | 510.6 | (2.1) |
| Number of full-time employees..... | 24,326 | 25,123 | (3.2) |
| Number of common shareholders..... | 64,815 | 65,079 | (.4) |
| Closing stock price..... | \$ 44 | \$ 40 | 10.0 |

Note 1: In December 1997, the company expensed all previously capitalized and unamortized business reengineering costs associated with the development and installation of software. The total write-off was \$10 million after tax (\$.02 per share), and is shown as a separate "cumulative effect of accounting change" line item in the Consolidated Statement of Income, below income from continuing operations. See Note 3 for additional information.

Note 2: Except where noted, 1996 financial results include the impact of the \$54.7 million pretax gain (\$.06 per share) on the sale of the St. Louis Cardinals. To facilitate further evaluation and understanding of the company's financial results, information excluding the Cardinal gain is disclosed in the Management's Discussion and Analysis and Letter to Shareholders sections of this report.

MANAGEMENT'S DISCUSSION & ANALYSIS OF OPERATIONS & FINANCIAL CONDITION

INTRODUCTION

This discussion summarizes the significant factors affecting the consolidated operating results, financial condition and liquidity/cash flows of Anheuser-Busch Companies, Inc. for the three-year period ended December 31, 1997. This discussion should be read in conjunction with the Letter to Shareholders, Consolidated Financial Statements and Notes to the Consolidated Financial Statements included in this annual report.

This discussion contains statements regarding the company's expectations concerning its operations, earnings and prospects. These statements are forward-looking statements that involve significant risks and uncertainties, and accordingly, no assurances can be given that such expectations will be correct. These expectations are based upon many assumptions that the company believes to be reasonable, but such assumptions may ultimately prove to be inaccurate or incomplete, in whole or in part. Important factors that could cause actual results to differ from the expectations stated in this discussion include, among others, changes in the pricing environment for the company's products; factors that may affect domestic demand for malt beverage products; changes in customer preference for the company's malt beverage products; changes in raw materials prices; changes in foreign currency exchange rates; changes in attendance and spending patterns for the company's theme park operations; changes in demand for aluminum beverage containers; changes in the company's international beer business or in the beer business of the company's international equity partners; and the effect of stock market conditions on the company's share repurchase program.

Financial results for 1996 and 1995 were impacted by certain significant one-time, nonrecurring transactions and events which make meaningful comparisons among 1997, 1996 and 1995 more difficult. The specific transactions and events are summarized below.

1996 Transaction:

Sale of the St. Louis Cardinals

During the first quarter 1996, the company completed the sale of the St. Louis Cardinals. The sale included Busch Memorial Stadium and several nearby parking garages and other properties in downtown St. Louis. The sale price was \$150 million, resulting in a \$54.7 million pretax gain (\$.06 per share after-tax) which is shown as a separate line item in the Consolidated Statement of Income.

1995 Transactions:

1. Divestiture of Food Products Segment

In the fourth quarter 1995, the Board of Directors approved management's plan to divest the company's food products segment through a tax-free 100% spin-off of The Earthgrains Company (formerly known as Campbell Taggart, Inc.) and the sale of the assets of Eagle Snacks, Inc. In accordance with generally accepted accounting principles, Anheuser-Busch restated all prior period financial information to report the historical combined financial results of Earthgrains and Eagle Snacks as discontinued operations, and recorded an after-tax loss provision of \$244.3 million in 1995 related to the divestiture. The loss provision was reported as part of discontinued operations and consisted of the following components (in millions):

| | |
|----------------------------------------------------|----------------|
| • Operating losses of Earthgrains and Eagle Snacks | \$ 18.8 |
| • Earthgrains spin-off costs | 19.8 |
| • Estimated loss on sale of Eagle Snacks assets | <u>205.7</u> |
| | <u>\$244.3</u> |

In connection with the Earthgrains spin-off, each Anheuser-Busch shareholder received one share of Earthgrains voting common stock for every 25 shares of Anheuser-Busch stock owned in a special dividend distributed March 26, 1996 (25:1 ratio, reflected on a pre-September 1996 stock split basis). Earthgrains common stock began trading on the New York Stock Exchange as a separate company on March 27, 1996.

MANAGEMENT'S DISCUSSION & ANALYSIS OF OPERATIONS & FINANCIAL CONDITION

2. Consolidation of Brewing Capacity Resulting in the Closure of the Tampa Brewery

By utilizing the full production capacity of its newest brewery in Cartersville, Ga., plus ongoing modernization programs at its other 11 breweries, Anheuser-Busch has added a significant amount of efficient, lower-cost capacity in recent years. The Tampa brewery was the company's highest cost-per-barrel brewery and, accordingly, was closed in 1995, resulting in a \$160 million pretax write-off (\$.19 per share after-tax) in the fourth quarter 1995. This write-off is shown as a separate line item in the company's Consolidated Statement of Income.

3. Reduction of Beer Wholesaler Inventories

In a move designed to provide the freshest possible beer to the marketplace, achieve greater systemwide distribution efficiencies and reduce costs, Anheuser-Busch reduced wholesaler inventories by about one-third during the fourth quarter 1995. This resulted in Anheuser-Busch shipping approximately 1.1 million fewer barrels of beer in the fourth quarter 1995 which reduced net sales by approximately \$107 million and reduced operating profits by approximately \$74.5 million. This financial impact is not separately identified in the company's Consolidated Statement of Income.

Objectives

Anheuser-Busch remains focused on achieving three major objectives in future years in order to enhance shareholder value:

1. Gaining an increased share of brewing industry profitability in the United States by increasing unit profitability and increasing market share in the longer term. The company will continue to apply its marketing expertise and substantial cash flow to achieve this goal.

2. Continued globalization of beer operations by building Budweiser brand equity worldwide and making selected investments in brewers with leading brands in key international beer growth markets. For 1997, international beer volume grew at a double-digit pace for the 16th consecutive year. The company made significant marketing investments to build Budweiser brand recognition outside the United States and made capital investments in overseas brewing capacity in both China and the United Kingdom. In May 1997, Anheuser-Busch increased its equity stake in Grupo Modelo's operating subsidiary, Diblo, to 37% and in June exercised its remaining option to increase its ownership in Diblo to 50.2%.

3. Continued support of the growth of packaging and entertainment operations. Metal Container Corporation, the company's can manufacturing subsidiary, provides significant efficiencies and cost savings. The company continues to invest in technology, capacity improvements and quality-driven cost reductions to support the success of domestic and international beer. The company's Busch Entertainment theme park subsidiary is a significant contributor to corporate earnings and provides Anheuser-Busch with a unique opportunity to showcase the company to over 20 million visitors annually.

CONTINUING OPERATIONS

As noted, the significant nonrecurring transactions in 1996 and 1995 make it difficult to directly compare 1997, 1996 and 1995 financial results. Therefore, in order to facilitate a more complete and meaningful understanding of company operating results, key financial comparisons are presented in the following summaries and throughout this discussion on a "normalized" operations basis only, which excludes all nonrecurring transactions.

In February 1996, Anheuser-Busch reached an agreement to sell most of its Eagle Snacks production facilities to Frito-Lay, a subsidiary of PepsiCo, and completed the sale in the second quarter 1996. Accordingly, the company adjusted its previously estimated loss provision for the disposition of the food products segment and recognized a \$33.8 million after-tax gain (\$.07 per share) during the second quarter 1996. This gain is reported entirely in Discontinued Operations and has no impact on financial results from Continuing Operations.

MANAGEMENT'S DISCUSSION & ANALYSIS OF OPERATIONS & FINANCIAL CONDITION

Key financial comparisons from normalized continuing operations (which exclude the financial results of The Earthgrains Company and Eagle Snacks, Inc.) are summarized in the following tables.

In the fourth quarter 1997, the company expensed all previously capitalized and unamortized business reengineering costs associated with the development and installation of software, in accordance with a recently mandated change in accounting practice. The total write-off was \$10 million after-tax (\$.02 per share) and is shown as a separate "cumulative effect of accounting change" line item in the income statement, below income from continuing operations. Because the write-off has no impact on the company's results from operations, it has been excluded from the following summaries.

Additionally, the company adopted Statement of Financial Accounting Standards (FAS) No. 128, "Earnings per Share (EPS)," in the fourth quarter 1997. The company now reports "basic" and "diluted" EPS in place of the former primary and fully diluted EPS, respectively. Adoption of FAS 128 resulted in a slight increase in basic EPS (vs. primary EPS). There was no change in diluted EPS (vs. fully diluted EPS), one of the key measures used to evaluate the company's performance.

| 1997 vs. 1996 — (in millions, except per share) | | | | |
|-------------------------------------------------------|----------|-----------------------|---------------|---------|
| | 1997 | 1996 | 1997 vs. 1996 | |
| | | Normalized Operations | | |
| Gross Sales | \$12,832 | \$12,622 | Up \$210 | Up 1.7% |
| Net Sales | 11,066 | 10,884 | Up 182 | Up 1.7% |
| Operating Income | 2,053 | 2,029 | Up 24 | Up 1.2% |
| Equity Income, Net of Tax | 50 | — | Up 50 | N/M |
| Income from Continuing Operations | 1,179 | 1,123 | Up 56 | Up 5.0% |
| Diluted Earnings per Share from Continuing Operations | 2.36 | 2.21 | Up .15 | Up 6.8% |

N/M - not meaningful

| 1996 vs. 1995 — (in millions, except per share) | | | | |
|-------------------------------------------------------|-----------------------|-----------------------|---------------|----------|
| | 1996 | 1995 | 1996 vs. 1995 | |
| | Normalized Operations | Normalized Operations | | |
| Gross Sales | \$12,622 | \$12,131 | Up \$491 | Up 4.0% |
| Net Sales | 10,884 | 10,448 | Up 436 | Up 4.2% |
| Operating Income | 2,029 | 1,867 | Up 162 | Up 8.7% |
| Income from Continuing Operations | 1,123 | 1,032 | Up 91 | Up 8.8% |
| Diluted Earnings per Share from Continuing Operations | 2.21 | 1.99 | Up .22 | Up 11.1% |

| 1995 vs. 1994 — (in millions, except per share) | | | | |
|-------------------------------------------------------|-----------------------|----------|---------------|---------|
| | 1995 | 1994 | 1995 vs. 1994 | |
| | Normalized Operations | | | |
| Gross Sales | \$12,131 | \$11,705 | Up \$426 | Up 3.6% |
| Net Sales | 10,448 | 10,025 | Up 423 | Up 4.2% |
| Operating Income | 1,867 | 1,853 | Up 14 | Up 0.8% |
| Income from Continuing Operations | 1,032 | 1,015 | Up 17 | Up 1.8% |
| Diluted Earnings per Share from Continuing Operations | 1.99 | 1.90 | Up .09 | Up 4.5% |

MANAGEMENT'S DISCUSSION & ANALYSIS OF OPERATIONS & FINANCIAL CONDITION

Sales

Total worldwide beer sales volume results are summarized in the following table:

| | Worldwide Beer Sales Volume (barrels in millions) | | | | | | | | |
|---------------|---------------------------------------------------|------|----------|------|------|----------|------|------|----------|
| | 1997 | 1996 | Change | 1996 | 1995 | Change | 1995 | 1994 | Change |
| Domestic | 89.6 | 88.9 | Up 0.7% | 88.9 | 85.5 | Up 4.0% | 85.5 | 86.5 | Dn 1.1% |
| International | 7.0 | 6.2 | Up 13.4% | 6.2 | 5.4 | Up 15.5% | 5.4 | 4.8 | Up 11.9% |
| Worldwide | 96.6 | 95.1 | Up 1.6% | 95.1 | 90.9 | Up 4.7% | 90.9 | 91.3 | Dn 0.4% |

Worldwide Beer Volume

Worldwide beer volume is comprised of domestic volume and international volume. Domestic volume represents beer produced and shipped within the United States. International volume represents exports from the company's U.S. breweries to markets around the world, plus Anheuser-Busch brands produced overseas by company-owned breweries in Wuhan, China and London, England and under license and contract brewing agreements.

Reported international volume does not include Anheuser-Busch's equity interests in the volume of foreign brewers Grupo Modelo and Antarctica. However, the company's share of its equity partners' volume is gaining in significance. Assigning a portion of each foreign partner's barrelage based on Anheuser-Busch's investment percentage in those companies would result in an equity volume of 6.8 million barrels for the year. Combining equity volume with international volume results in a 4.3% increase in beer volume for 1997 compared to 1996.

1997 vs. 1996

Gross sales were a record \$12.8 billion and net sales were \$11.1 billion in 1997, representing increases of \$210 million and \$182 million, respectively, or 1.7%, compared to 1996. The difference between gross and net sales for 1997 represents \$1.77 billion of federal and state beer excise taxes.

The primary factors responsible for the sales increases were higher domestic and international beer sales volume, partially offset by increased price discounting in the domestic beer market, and increased sales from the company's theme park operations. Theme park operations experienced an attendance increase of approximately 7% in 1997 vs. 1996, to nearly 21 million visitors, and also attained higher in-park per capita revenues.

Domestic Beer Volume

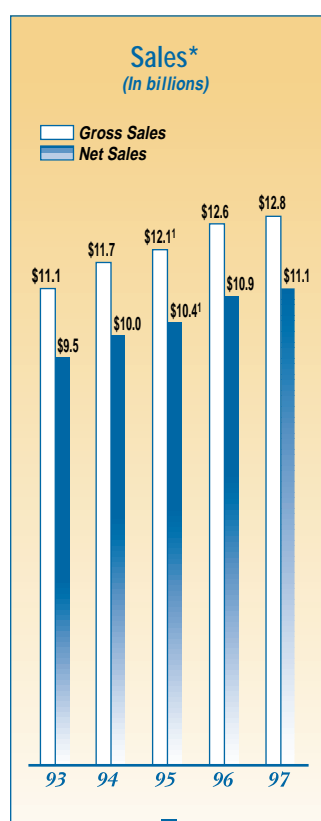
The increase in domestic volume during 1997 was driven by the continued momentum of Bud Light, which was up approximately 10%, and improved Budweiser trends. Total Bud Family sales-to-retailers were up almost 2% in 1997 compared to 1996.

Anheuser-Busch's domestic market share (excluding exports) for 1997 and 1996 was 45.5% of industry shipments. The company's domestic market share is based on domestic volume of 89.6 million barrels in 1997 and 88.9 million barrels in 1996.

Anheuser-Busch's share of U.S. shipments for 1997 (including exports) was 45.3%, even compared with 1996 share. The company's market share is based on combined domestic and export volume of 91.3 million barrels in 1997 and 91.0 million barrels in 1996. Market share of U.S. shipments is determined based on industry sales estimates provided by the Beer Institute and includes imports, exports, nonalcohol brews and other malt beverages. Anheuser-Busch has led the U.S. brewing industry in sales volume and market share since 1957.

Operating performance for 1997 was significantly impacted by aggressive price discounting initiated by competition, which began in the first quarter and became progressively deeper throughout the year. Anheuser-Busch responded to the increased level of discounting to keep its brands price-competitive and protect its market share.

Recent results are encouraging. Volume trends are favorable for the company's core premium brands. Consumers are trading up to premium and higher-priced brands. Combined



¹Normalized results, excluding impact of the beer wholesaler inventory reduction. Reported gross and net sales were 12.0 and 10.3, respectively.

*The difference between gross sales and net sales represents excise taxes.

MANAGEMENT'S DISCUSSION & ANALYSIS OF OPERATIONS & FINANCIAL CONDITION

Budweiser and Bud Light results are the best the company has experienced in recent years. Budweiser experienced improved volume trends and, as noted, Bud Light continued its double-digit growth. The company's quality initiatives, including the freshness campaign and a renewed focus on Anheuser-Busch's 140-year heritage of quality and excellence, have enhanced the company's quality perception among consumers, especially in the important 21- to 27-year-old segment.

Given the current pricing environment, the company is not initiating front-line price increases to wholesalers in the first quarter 1998, as has been done in recent years. Instead, the company is reducing its current level of discounting. This strategy is designed to increase revenues, reduce the spread between front-line and discounted prices to consumers, and protect the company's brand equities.

International Beer Volume

Total international beer volume growth was strong for 1997. Growth was led by combined Budweiser sales volume increases in China and the United Kingdom of 44% for full-year 1997. The strong volume growth in China and the United Kingdom has led to the expansions of the company's breweries in those countries, both of which are expected to be complete in 1998. Significant gains in volume produced overseas in 1997 was partially offset by reduced exports from the company's U.S. facilities due in part to discontinuing Kirin Ice shipments to Japan, lower shipments of Michelob Classic Dark to Taiwan and a shift to local Budweiser production in Brazil.

Total international volume, excluding equity share volume, was up 13.4% for the year. Budweiser volume outside the United States was up 985,000 barrels, or 18.3%, for 1997 vs. 1996.

1996 vs. 1995

Anheuser-Busch had gross sales during 1996 of \$12.6 billion, an increase of \$491 million or 4.0% over 1995 gross sales of \$12.1 billion. Gross sales include \$1.74 billion in federal and state beer excise taxes for 1996. Net sales for 1996 were \$10.9 billion, an increase of \$436 million or 4.2% over 1995 net sales of \$10.4 billion.

The increase in gross and net sales in 1996 was driven primarily by increased beer sales volume, higher net revenue per barrel and higher theme park revenues. Consolidated sales growth for 1996 would have been even higher if not for lower sales by the company's recycling operations due to lower aluminum prices, and lower revenues due to the sale of the St. Louis Cardinals during the first quarter 1996.

Domestic Beer Volume

The company reported domestic 1996 sales volume of 88.9 million barrels, an increase of 3.4 million barrels, or 4.0%, vs. the 85.5 million barrels sold during 1995.

As previously noted, 1995 volume was negatively impacted by the beer wholesaler inventory reduction. Excluding the inventory reduction, 1996 beer volume would have increased 2.3 million barrels, or 2.7%, over 1995.

Reported market share for 1996 (including exports) was 45.3% of industry shipments, an increase of 1.2 share points when compared to 1995 reported market share of 44.1% (including exports). Excluding the impact of the wholesaler inventory reduction, Anheuser-Busch's 1995 market share would have been 44.4%.

During 1996, Anheuser-Busch's core premium and super-premium brands (the Budweiser and Michelob Families) continued to gain momentum, with Bud Light growing at an annualized double-digit pace. Overall, Bud Family sales were up almost 4%.

International Beer Volume

The company's international beer volume performance was strong during 1996, led by continuing Budweiser sales expansion in the United Kingdom, Ireland and Japan. Overall, international volume was up 800,000 barrels, or 15.5%, in 1996 compared to 1995.

MANAGEMENT'S DISCUSSION & ANALYSIS OF OPERATIONS & FINANCIAL CONDITION

1995 vs. 1994

Gross sales during 1995 of \$12.1 billion were 3.6% higher than 1994. Net sales for 1995 of \$10.4 billion were 4.2% higher than 1994. Gross sales include \$1.68 billion in federal and state beer excise taxes for both 1995 and 1994.

Anheuser-Busch, Inc. reported domestic beer volume of 85.5 million barrels in 1995, including the impact of the beer wholesaler inventory reduction. Excluding the 1995 beer wholesaler inventory reduction, Anheuser-Busch, Inc. would have reported 1995 sales volume of 86.6 million barrels, an increase of 100,000 barrels, or .1%, vs. the 86.5 million barrels sold during 1994.

Sales-to-retailers were up slightly in 1995 compared to 1994. In 1995, Anheuser-Busch's core premium brands (the Budweiser and Michelob Families) gained momentum, with Bud Light increasing at a double-digit rate.

Led by sales volume growth in the United Kingdom and Ireland, international beer volume was up 600,000 barrels, or 11.9% in 1995.

Cost of Products and Services

Cost of products and services was \$7.1 billion in 1997, an increase of 1.9% compared to 1996. The increase in cost of products and services in 1997 is attributable to increased beer sales volume and slightly higher materials costs, plus costs associated with higher theme park attendance. Gross profit as a percentage of net sales was 35.9% for 1997, a decrease of 0.1 percentage points compared to 36.0% for 1996, due to slightly lower revenue per barrel in 1997.

Cost of products and services for 1996 was \$7.0 billion, a 2.1% increase over the \$6.8 billion reported for 1995. This increase follows a 4.6% increase in 1995. The increase in the cost of products and services in 1996 is attributable to increased beer sales volume and increased raw material costs, particularly brewing materials, partially offset by increased production efficiency savings and lower scrap aluminum prices related to recycling operations. Gross profit as a percentage of net sales in 1996 increased 1.3 percentage points, compared to 34.7% for 1995, reflecting higher net revenue per barrel sold and productivity improvements.

During 1995, beer packaging costs increased substantially as a result of higher aluminum costs. However, such increases were mitigated by the company's having protected pricing on more than half of its 1995 aluminum sheet requirements at prices below market level. As a percent of net sales, gross profit for 1995 decreased .5 of a percentage point compared to 35.2% for 1994.

The company continues to drive operating costs out of its system. Brewery modernizations will yield long-term savings through reduced beer packaging and shipping costs and reduced maintenance and equipment replacement costs. The focused production initiative concentrates small-volume brand and package production at three breweries and creates production efficiencies, reduces costs and enhances responsiveness to changing brand/package combinations. Also, the company is working with its network of wholesalers to reduce distribution costs through systemwide coordination.

Marketing, Distribution and Administrative Expenses

Marketing, distribution and administrative expenses for 1997 were \$1.92 billion, compared with \$1.89 billion for 1996, an increase of \$26 million, or 1.4%.

The increase for 1997 is principally due to marketing costs related to the company's international beer activity, costs related to increased theme park attendance, additional costs due to an increase in the number of company-owned beer wholesale operations and increased administrative expenses, partially offset by lower promotional spending compared to last year due to the 1996 Centennial Summer Olympic Games in Atlanta.

Marketing, distribution and administrative expenses for 1996 were \$1.89 billion, an increase of 7.6% compared to 1995. These expenses increased in 1996 primarily due to sponsorship of the Centennial Summer Olympic Games in Atlanta, increased spending to support accelerated volume growth for premium brands and global Budweiser brand-building initiatives.

MANAGEMENT'S DISCUSSION & ANALYSIS OF OPERATIONS & FINANCIAL CONDITION

Marketing, distribution and administrative expenses for 1995 were \$1.76 billion, an increase of 4.6% compared to 1994. These expenses increased in 1995 primarily due to the addition of marketing and distribution expenses for new beer brands and higher international beer marketing expenses.

Systems-Related Year 2000 Costs

Anheuser-Busch has identified its significant software coding issues related to Year 2000 date recognition for key accounting and operating systems. The company is resolving the Year 2000 matter through either replacement of existing systems with new Year 2000 compatible systems or reprogramming existing systems. The company incurred costs of \$6.6 million in 1997 for Year 2000 reprogramming of existing systems. Year 2000 costs were not material in 1996 or 1995. The company estimates incurring an additional \$27 million to complete the reprogramming effort.

Completion of all reprogramming and appropriate testing is expected prior to January 1, 2000. All costs related to the reprogramming of existing systems for the Year 2000 effort are expensed as incurred. The company is also working with its key suppliers and customers to ensure applicable Year 2000 issues are appropriately addressed. See Note 1 and Note 3 for additional information.

Employee-Related Costs

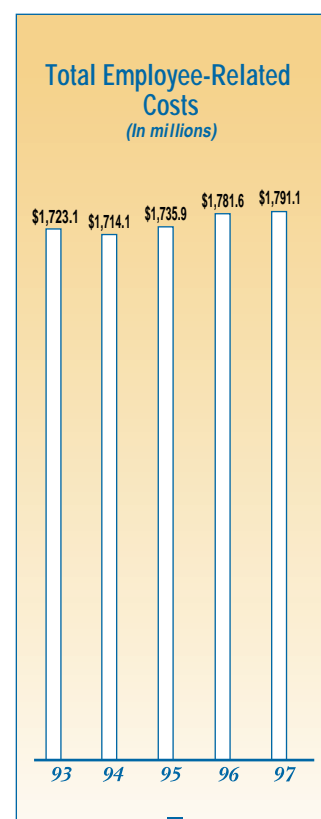
Total employee-related costs during 1997 totaled \$1.79 billion, an increase of \$10 million, or .5%, vs. 1996 costs of \$1.78 billion. Employee-related costs during 1996 increased \$46 million, or 2.6%, compared to 1995 costs of \$1.74 billion. Costs in 1995 increased 1.8% vs. 1994 costs of \$1.71 billion. The changes in employee-related costs reflect normal increases in salaries, wages and benefit levels for all years, partially offset in 1997 and 1996 by lower pension and retiree health care expense.

Salaries and wages paid during 1997 totaled \$1.48 billion, an increase of \$31 million, or 2.1%, compared to \$1.45 billion in salaries and wages paid in 1996. The 1996 amounts represent an increase of 5.0% vs. 1995. Pension, life insurance and health care benefits amounted to \$194.2 million for 1997, a decrease of 12% vs. related 1996 costs of \$220.7 million. Payroll taxes in 1997 were \$115.2 million, an increase of 4.6%, compared to 1996 payroll taxes of \$110.1 million. These costs decreased 10.2% and increased 1.0%, respectively, in 1996 vs. 1995 costs of \$245.7 million and \$109.0 million. Full-time employees for continuing operations numbered 24,326, 25,123 and 25,181 at December 31, 1997, 1996 and 1995, respectively.

Taxes

The company is significantly impacted by federal, state and local taxes, including beer excise taxes. Taxes applicable to 1997 operations (not including the many indirect taxes included in materials and services purchased) totaled \$2.67 billion, a decrease of \$8 million, or 0.3%, vs. 1996, and highlight the burden of taxation on the company and the brewing industry in general. Total taxes for 1996 increased \$241 million, or 9.9%, compared to 1995 taxes of \$2.44 billion. This follows a decrease of 4.0% in 1995 vs. 1994. Total taxes include the impact of all nonrecurring events and transactions.

The decrease in total taxes for 1997 compared to 1996 is primarily attributable to reduced income taxes due to lower pretax income and a lower effective tax rate. The increase in total taxes for 1996 compared to 1995 is primarily due to higher beer excise taxes from increased beer volume and higher income taxes on the company's higher pretax earnings level in 1996. The significant decrease in total taxes for 1995 compared to 1994 is primarily due to reduced income taxes on lower taxable income, resulting from the costs associated with closing the Tampa brewery and the impact of the beer wholesaler inventory reduction. The beer wholesaler inventory reduction also contributed to slightly lower beer excise taxes in 1995.



Operating Income

Operating income represents the measure of the company's financial performance before net interest cost, other nonoperating items and equity income.

Operating income for 1997 was \$2.05 billion, an increase of \$24 million, or 1.2%, compared to 1996. The increase is primarily due to increased beer sales volume, continued brewery operating efficiencies and improved performance by the company's theme park operations. As noted, domestic revenue per barrel for 1997 was down slightly vs. the 1996 level.

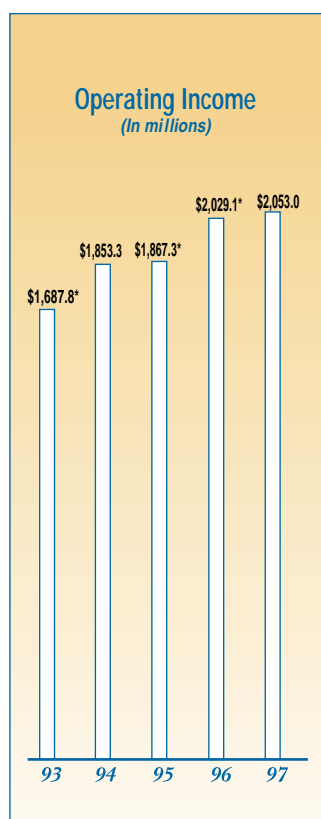
Theme park operations experienced their sixth consecutive year of record attendance and profitability and contributed over \$100 million in operating income for the first time in 1997. Aggregate attendance at Busch Entertainment facilities was up approximately 7% compared to 1996, to nearly 21 million visitors. International beer profitability was down in 1997 compared to 1996 due to higher material and distribution costs plus continued significant marketing expenditures for Budweiser. Packaging operations also contributed over \$100 million in operating profits in 1997, down slightly when compared with 1996 performance.

Operating income for 1996 was \$2.03 billion, an increase of \$162 million, or 8.7%, compared to 1995. The increase in 1996 operating income is due primarily to higher beer sales volume and higher beer margins due to increased revenue per barrel and continued productivity improvements. Productivity improvements in 1996 generated nearly \$100 million in cost savings vs. 1995. Metal Container Corporation reported flat profits during 1996 vs. 1995 primarily due to weaker can pricing.

International beer's profit contribution was down somewhat in 1996 compared to 1995 due to substantially higher investment spending on marketing for global Budweiser brand building and having a full year of operating results for the Wuhan brewery included in 1996 vs. only partial year results in 1995.

Busch Entertainment was a significant contributor to corporate performance in 1996. This performance was achieved despite an unusually active hurricane season and a disruption in normal attendance patterns due to the Centennial Summer Olympic Games in Atlanta. The Busch Entertainment facilities achieved aggregate record attendance of approximately 20 million guests in 1996, slightly exceeding the levels achieved in 1995.

Operating income for 1995 was \$1.87 billion, an increase of \$14 million, or .8%, compared to 1994. The increase in operating income for 1995 was primarily due to the performance of the company's international beer operations, which experienced a double-digit profit contribution increase, packaging operations and theme park operations.



*Normalized results, excluding one-time nonrecurring transactions and events. Reported operating income for 1996, 1995 and 1993, which includes all nonrecurring transactions and events, was \$2,088.8, \$1,632.9 and \$1,286.5, respectively.

Net Interest Cost

Net interest cost (interest expense less interest income) for 1997 was \$253.3 million, an increase of \$29.9 million, or 13.4%, over net interest cost of \$223.4 million in 1996. The increase in net interest cost is primarily the result of an increase in long-term debt related to the additional investment in Grupo Modelo in May 1997.

Net interest cost for 1996 represented an increase of \$7.4 million, or 3.4%, compared to 1995. This increase was due to higher average debt balances outstanding during the period, primarily as a result of financing capital expenditures and share repurchases, largely offset by lower average interest rates.

Net interest cost for 1995 was \$216.0 million, a decrease of \$.7 million compared to 1994. The decrease in net interest cost in 1995 was due to lower average debt balances outstanding during the period, and higher interest income offset by higher average interest rates.

Interest Capitalized

Interest capitalized increased \$6.6 million in 1997 compared to 1996, to \$42.1 million. Interest capitalized increased \$11.2 million, to \$35.5 million in 1996, after increasing \$2.5 million in 1995. The increases in all years are due primarily to higher construction-in-progress levels resulting from modernization projects at the company's breweries.

MANAGEMENT'S DISCUSSION & ANALYSIS OF OPERATIONS & FINANCIAL CONDITION

Other Income/Expense, Net

Other income/expense, net includes numerous items of a nonoperating nature which do not have a material impact on the company's consolidated results of operations, either individually or in total.

Other expense, net was \$9.3 million for 1997, representing an increase of \$6.3 million compared to 1996. The increase in other expense, net, in 1997 is primarily attributable to the elimination of dividend income reporting for the Grupo Modelo investment due to the adoption of equity accounting in the second quarter 1997.

Other expense, net was \$3.0 million in 1996. Other income, net was \$20.5 million for 1995. The change in 1996 compared to 1995 is primarily due to the reclassification of certain purchase discounts from other income/expense, net to cost of products and services.

Equity Income, Net

In the second quarter 1997, the company for the first time began recognizing its pro rata equity interest in the net earnings of Grupo Modelo and ANEP under the equity method of accounting, as a separate line item in the Consolidated Statement of Income. The company recognized after-tax equity income of \$50.3 million for 1997.

Income From Continuing Operations

Income from continuing operations was \$1.18 billion for 1997, an increase of \$56 million, or 5.0%, compared to 1996. Income from continuing operations for 1996 was \$1.12 billion, an increase of 8.8% compared to 1995 income from continuing operations of \$1.03 billion. 1995 income from continuing operations increased 1.8% compared to 1994.

The effective tax rate declined 0.5 percentage points, to 38.4%, in 1997 vs. 1996, primarily due to lower foreign taxes and nondeductible costs. The company's effective tax rate declined to 38.9% for 1996, from 39.1% for 1995 (normalized), due to lower state taxes and nondeductible costs. The effective tax rate in 1995 declined 0.4% vs. 39.5% for 1994.

Diluted Earnings Per Share from Continuing Operations

Diluted earnings per share from continuing operations for 1997 were \$2.36, an increase of \$.15, or 6.8%, compared to \$2.21 in 1996. Earnings per share for 1996 increased \$.22, or 11.1%, compared to 1995, which was up \$.09, or 4.5% compared to 1994. Diluted earnings per share benefit from the company's ongoing share repurchase program. See Note 15 for information regarding the company's share repurchases.

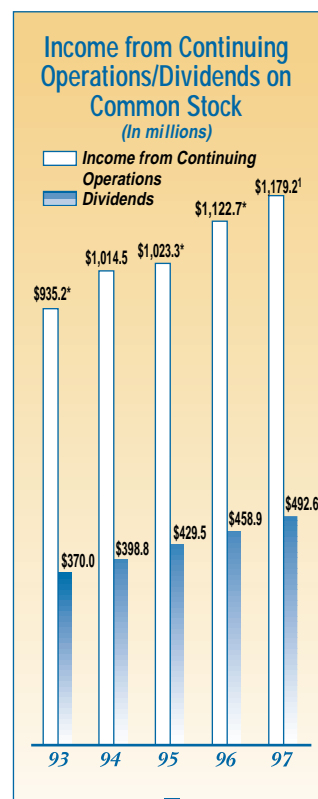
FINANCIAL POSITION

Liquidity and Capital Resources

The company's primary sources of liquidity are cash provided from operations and financing activities. Information on the company's consolidated cash flows (categorized by operating activities, financing activities and investing activities) for the years 1997, 1996 and 1995 is presented in the Consolidated Statement of Cash Flows and Note 8.

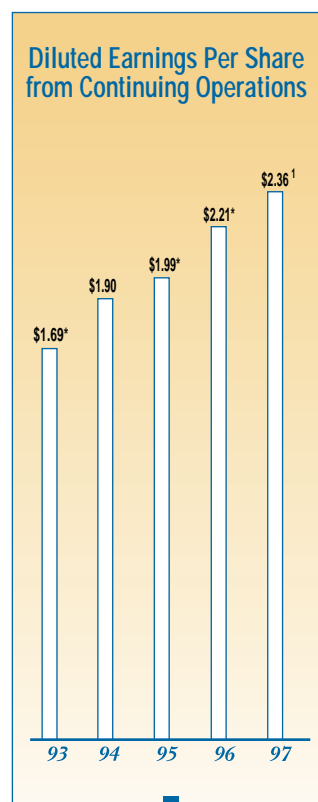
Anheuser-Busch's strong financial profile allows it to pursue growth while providing substantial direct returns to shareholders. Accordingly, the company has established well-defined priorities for its operating cash flow:

- **Reinvesting in core businesses to achieve profitable growth.** The company will continue to make investments in its capital asset base to ensure the highest efficiency and lowest cost in its operations.
- **Making substantial cash payments directly to shareholders.** The company's objective is to return cash to shareholders through consistent dividend growth and the repurchase of approximately 3% to 4% of outstanding common shares each year. The company has paid dividends in each of the last 64 years.



¹Before cumulative effect of accounting change.

²Normalized results, excluding one-time nonrecurring transactions and events. Reported income from continuing operations for 1996, 1995 and 1993, which includes all nonrecurring transactions and events, was \$1,156.1, \$886.6 and \$657.2, respectively.



¹Before cumulative effect of accounting change.

²Normalized results, excluding one-time nonrecurring transactions and events. Reported earnings per share for 1996, 1995 and 1993, which include all nonrecurring transactions and events, were \$2.27, \$1.71 and \$1.20, respectively.

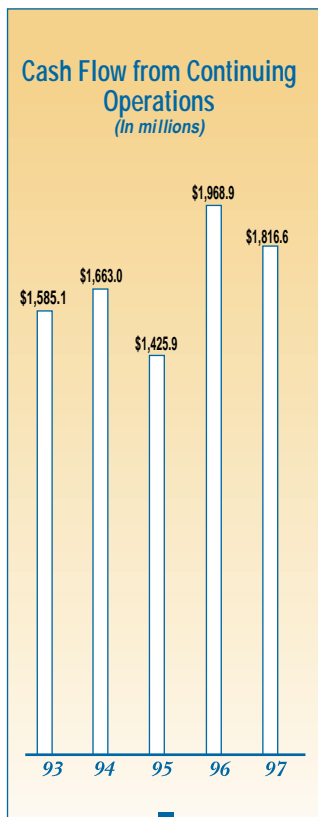
MANAGEMENT'S DISCUSSION & ANALYSIS OF OPERATIONS & FINANCIAL CONDITION

Working capital at December 31, 1997 was \$83.2 million compared to working capital of \$34.9 million at December 31, 1996 and \$268.6 million at December 31, 1995. Cash and marketable securities were \$147.3 million at December 31, 1997 and \$93.6 million at both December 31, 1996 and 1995.

The increase in cash and marketable securities at December 31, 1997 compared to December 31, 1996 was primarily related to cash generated from operations and debt issuance, partially offset by cash used for capital expenditures, share repurchases, dividends and business investments. Cash flow from December 31, 1995 to December 31, 1996 is attributable to these same factors plus proceeds from the sale of the assets of Eagle Snacks, Inc., the sale of the Cardinals and a spin-off-related dividend from Earthgrains.

The company utilizes Securities and Exchange Commission "shelf" registration statements to provide flexibility and efficiency when obtaining long-term financing. At December 31, 1997, a total of \$650 million of debt was available for issuance under existing registrations.

Total long-term debt increased a net \$1.09 billion in 1997 and a net \$0.8 million in 1996. The change in debt during these years is detailed below, by key component. Included in the gross reduction in long-term debt for 1996 is the noncash conversion of the company's 8% Convertible Debentures Due 1996.



Debt Issuances

Debt issuances totaled \$1.26 billion in 1997 compared to \$773.6 million in 1996, as follows:

| Year | Description | Amount (millions) | Interest Rate |
|------|--------------------------|----------------------|---------------|
| 1997 | Long-Term Notes | \$250.0 | 7.1% |
| | Long-Term Notes | 250.0 | 7.125% |
| | Debentures | 100.0 | 6.75% |
| | Dual-Currency Notes | 162.8 | Floating |
| | Industrial Revenue Bonds | 41.0 | Various fixed |
| | Commercial Paper, net | 436.4 | 5.5% (avg) |
| | Other, net | 29.4 | Various fixed |
| 1996 | Long-Term Notes | \$450.0 | 6.75% |
| | Dual-Currency Notes | 262.4 | Floating |
| | Industrial Revenue Bonds | 50.7 | Various fixed |
| | Other, net | 10.5 | Various fixed |

Debt Reductions

Gross debt reduction was \$174.9 million in 1997 vs. \$772.8 million in 1996, as follows:

| Year | Description | Amount (millions) | Interest Rate |
|------|--------------------------|----------------------|---------------|
| 1997 | Sinking Fund Debentures | \$83.3 | 8.625% |
| | Medium-Term Notes | 32.5 | 5.9% (avg) |
| | ESOP Guarantee | 33.3 | 8.3% |
| | Other, net | 25.8 | Various fixed |
| 1996 | Sinking Fund Debentures | \$110.6 | Various fixed |
| | Convertible Debentures | 166.0 | 8% |
| | Medium-Term Notes | 13.0 | 7.4% (avg) |
| | Industrial Revenue Bonds | 30.0 | Various fixed |
| | Commercial Paper, net | 417.0 | 5.3% (avg) |
| | ESOP Guarantee | 31.7 | 8.3% |
| | Other, net | 4.5 | Various fixed |

MANAGEMENT'S DISCUSSION & ANALYSIS OF OPERATIONS & FINANCIAL CONDITION

In addition to its long-term debt financing, the company has access to the short-term capital market through the utilization of commercial paper and its \$1 billion revolving bank credit agreement which expires August 2001. The credit agreement provides the company with an immediate and continuing source of liquidity. No borrowings have been made under the credit agreement since its inception. Fee information on the credit agreement can be found in Note 8.

In 1996, the company cancelled all sinking fund debentures previously held in treasury.

The company's ratio of total debt to total capitalization was 51.9% and 44.8% at December 31, 1997 and 1996, respectively. The company's fixed charge coverage ratio was 7.3x, 7.9x and 7.6x for the years ended December 31, 1997, 1996 and 1995, respectively.

Capital Expenditures

During the next five years, the company will continue capital expenditure programs designed to take advantage of growth and productivity improvement opportunities for its beer, packaging and entertainment operations. Cash flow from operating activities is projected to exceed the funding requirements for these capital investments. However, the combination of the company's capital expenditure program, plus share repurchases and possible additional investments in international brewers, may require external financing from time to time. The nature, extent and timing of external financing will vary depending upon the company's evaluation of existing market conditions and other economic factors.

The company has a formal and intensive review procedure for the authorization of capital expenditures. The most important measure of acceptability of a capital project is its projected discounted cash flow return on investment (DCFROI). Total capital expenditures in 1997 amounted to \$1.2 billion, an increase of \$115 million over 1996. Capital expenditures over the past five years totaled \$4.6 billion.

Capital expenditures for 1997 for the company's beer/beer-related operations were \$1.0 billion, primarily related to on-going brewery modernizations. Capital expenditures for entertainment operations totaled \$150.6 million in 1997, principally for new theme park attractions.

The company expects capital expenditures of nearly \$1.0 billion in 1998. Capital expenditures during the five-year period 1998-2002 are expected to approximate \$4 billion.

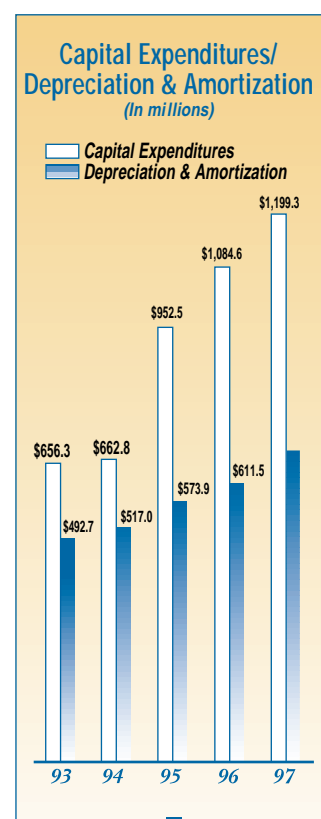
Dividends

Cash dividends paid to common shareholders were \$492.6 million in 1997 and \$458.9 million in 1996. Dividends on common stock are paid in the months of March, June, September and December of each year. In the third quarter 1997, effective with the September dividend, the Board of Directors increased the quarterly dividend rate by 8.3%, from \$.24 to \$.26 per share. This increased annual dividends per common share 8.7%, to \$1.00 in 1997, compared with \$.92 per common share in 1996. In 1996, dividends were \$.22 per share for the first two quarters and \$.24 per share for the last two quarters.

COMMON STOCK

A discussion of share repurchases and dividends paid on common stock can be found in Note 15 and the Dividends section of this discussion, respectively.

At December 31, 1997, common stock shareholders of record numbered 64,815 compared with 65,079 at the end of 1996. Total shares outstanding were 487.0 million at December 31, 1997 compared to 497.4 million at December 31, 1996.

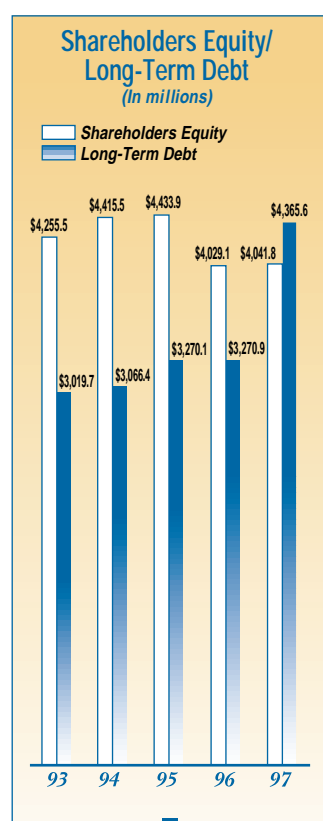


MANAGEMENT'S DISCUSSION & ANALYSIS OF OPERATIONS & FINANCIAL CONDITION

Price Range of Common Stock

The company's common stock is listed on the New York Stock Exchange (NYSE) under the symbol "BUD." The following table summarizes quarterly high and low closing prices on the NYSE.

| PRICE RANGE OF ANHEUSER-BUSCH COMMON STOCK (BUD) | | | | |
|--------------------------------------------------|--------|----------|--------|--------|
| Quarter | 1997 | | 1996 | |
| | High | Low | High | Low |
| First | 44 7/8 | 40 5/8 | 35 5/8 | 32 5/8 |
| Second | 44 1/4 | 41 | 38 1/4 | 32 1/2 |
| Third..... | 47 7/8 | 41 13/16 | 39 7/8 | 35 3/4 |
| Fourth..... | 45 | 39 1/2 | 42 7/8 | 37 3/8 |



The closing price of the company's common stock at December 31, 1997 and 1996 was \$44 and \$40, respectively. The book value of each common share of stock at December 31, 1997 was \$8.30, compared to \$8.10 at December 31, 1996.

Shareholders Equity

Shareholders equity was \$4.04 billion at December 31, 1997, compared with \$4.03 billion at December 31, 1996 and \$4.43 billion at December 31, 1995. The changes in shareholders equity are detailed in the Statement of Changes in Shareholders Equity.

In July 1996, the Board of Directors authorized a two-for-one stock split, effective for shareholders of record August 15, 1996. Certificates for one additional share of Anheuser-Busch common stock for each share held at the record date were distributed to shareholders on September 12, 1996. All share and per share information has been adjusted to reflect the impact of the split.

RISK MANAGEMENT

In the ordinary course of business, Anheuser-Busch is exposed to foreign currency, interest rate and commodity price risks. These exposures primarily relate to the sale of product to foreign customers, purchases from foreign suppliers, acquisition of raw materials from both domestic and foreign suppliers, and changes in interest rates. The company utilizes derivative financial instruments, including forward exchange contracts, futures contracts, options and swap agreements to manage certain of these exposures that it considers practical to do so. Anheuser-Busch has well-established policies and procedures governing the use of derivatives. The company hedges only firm commitments or anticipated transactions and company policy prohibits the use of derivatives for speculation, including the sale of free-standing options. The company neither holds nor issues financial instruments for trading purposes.

Specific hedging strategies depend on several factors, including the magnitude of the exposure, offset through contract terms, cost and availability of appropriate instruments, the anticipated time horizon, basis, opportunity cost and the nature of the item being hedged. The company's overall risk management goal is to strike a balance between managing its exposure to market volatility and obtaining the most favorable transaction costs possible within the constraints of its financial objectives. Exposures the company currently is unable to hedge, or has elected not to hedge, primarily relate to its floating-rate debt, "to-arrive" inventory purchase contracts, net investments in foreign-currency-denominated operations and translated earnings of foreign subsidiaries.

MANAGEMENT'S DISCUSSION & ANALYSIS OF OPERATIONS & FINANCIAL CONDITION

Derivatives are either exchange-traded instruments which are highly liquid, or over-the-counter instruments transacted with highly-rated financial institutions. No credit loss is anticipated, as the counterparties to over-the-counter instruments have long-term debt ratings from Standard and Poor's or Moody's no lower than A+ or A1, respectively, or the position is secured by a letter of credit from a bank having a similar rating. The fair value of derivative financial instruments is monitored based on the estimated amounts the company would receive or have to pay when terminating the contracts. The company also monitors the effectiveness of its hedging structures on an on-going basis.

Following is a volatility analysis of the company's derivatives portfolio which indicates potential changes in the fair value of the company's derivative holdings under certain market movements. The company applies sensitivity analysis for commodity price exposures and value-at-risk (VAR) analysis for foreign currency and interest rate exposures.

Estimated Fair Value Volatility at December 31, 1997 (in millions)

| | |
|-------------------------------------|----------|
| Foreign Currency Risk (VAR): | |
| Forwards, Options | \$ (0.7) |
| Interest Rate Risk (VAR): | |
| Swaps | \$ (2.2) |
| Commodity Price Risk (Sensitivity): | |
| Futures, Swaps, Options | \$(15.9) |

The sensitivity analysis for commodities reflects the impact of a hypothetical 10% adverse change in the market price for the company's principal commodities. In actuality, commodity price volatility is dependent on many factors impacting supply and demand that are impossible to forecast. Therefore, changes in fair value over time could differ substantially from the hypothetical change shown above.

VAR forecasts fair value changes using a statistical model (Monte Carlo simulation method for currencies and covariance method for interest rates) which incorporates historical correlations among various currencies and interest rates. The VAR model assumes the company could liquidate its currency and interest rate positions in a single day (one-day holding period). The volatility amount provided represents the maximum one-day loss each portfolio could experience for 19 out of every 20 trading days (95% confidence level).

The preceding volatility analysis ignores changes in the exposures inherent in the underlying hedged transactions. Because the company does not hold or trade derivatives for speculation or profit, all changes in derivative values are effectively offset by corresponding changes in the underlying exposures. See Note 4 for additional information.

BUSINESS INVESTMENTS

Anheuser-Busch made several strategic business investments in 1997, 1996 and 1995. A summary of current issues related to those investments is presented below. See Note 2 for additional information.

Grupo Modelo

In 1993, the company purchased a 17.7% direct and indirect interest in Diblo, the operating subsidiary of Grupo Modelo, Mexico's largest brewer. In May 1997, the company completed the purchase of an additional 25% interest in Grupo Modelo and now holds a 37% direct and indirect interest in Diblo.

In June 1997, the company exercised its option to purchase an additional 13.2% of Diblo for \$550 million, which will result in Anheuser-Busch holding a 50.2% direct and indirect interest in Diblo when completed. Due diligence is complete and Anheuser-Busch and the controlling shareholders of Grupo Modelo are pursuing arbitration to resolve a dispute concerning the purchase price for the option shares.

MANAGEMENT'S DISCUSSION & ANALYSIS OF OPERATIONS & FINANCIAL CONDITION

The company accounted for its investment in Grupo Modelo on the cost basis in 1996 and 1995. Due to the structure and composition of Anheuser-Busch's initial investment, the company was not required to adjust its Grupo Modelo investment to fair market value while on the cost basis. Additionally, the initial investment was configured such that the company's return was largely protected against devaluation of the peso. Therefore, the 1994 peso devaluation and subsequent depreciation relative to the U.S. dollar did not have a significant effect on the carrying value of the investment in 1996 or 1995.

The company adopted the equity method of accounting in the second quarter 1997 commensurate with the increase in ownership to 37% and obtaining additional minority rights and representation on the Grupo Modelo Board of Directors. At that time, the company adjusted the carrying value of its Modelo investment by \$189.4 million to reflect the impact of cumulative peso depreciation during the period for which the investment was accounted for under the cost method of accounting (1993 through 1996). The offset to this translation adjustment is included in the "Foreign Currency Translation Adjustment" line item in the Shareholders Equity section of the Consolidated Balance Sheet.

Antarctica

In April 1996, the company purchased a 5% equity stake in Antarctica Empreendimentos e Participacoes (ANEP), a subsidiary controlling 75% of the operations of Companhia Antarctica Paulista (Antarctica), one of Brazil's leading brewers. The investment agreement also provided the company with options allowing it to increase its investment to approximately 30% of ANEP beginning April 22, 1996 and generally expiring on April 21, 2002.

In December 1997, the Brazilian trade commission (CADE), which in July 1997 originally ruled against Anheuser-Busch's partnership with Antarctica as a restraint of trade and called for the company to divest its investment in ANEP, revised its position and ruled the partnership to be valid, subject to certain conditions being met. The company is currently holding discussions with CADE regarding the ruling.

Stag Brewery

In April 1995, the company entered into a joint venture with Scottish Courage Ltd. (formerly Courage Ltd.) which consolidated the brewing and packaging of Budweiser, primarily for the United Kingdom market, at the Stag Brewery in London, England. Anheuser-Busch owned a 50% share in the joint venture, which was accounted for on the equity basis in 1996 and 1995.

In July 1997, the company purchased the remaining 50% of the joint venture. Under the agreement, Scottish Courage will retain ownership of the brewery. Anheuser-Busch will lease the site, operate the brewery and have control over future capital investments. The Stag operation is now consolidated.

MANAGEMENT'S DISCUSSION & ANALYSIS OF OPERATIONS & FINANCIAL CONDITION

CORPORATE MATTERS

Justice Department Inquiry

In October 1997, the company received notification from the Justice Department that the Department had begun a civil investigation into the distribution and sale of beer, including Anheuser-Busch's policies and practices in marketing and distribution. Anheuser-Busch is cooperating fully with the investigation and is unable at this time to determine what, if any, impact this investigation will have on the company's operations.

Labor Negotiations

The existing contract with the Teamsters union covering hourly production workers at U.S. breweries expires on February 28, 1998. As a standard contingency, the company is building wholesaler inventories. The company is fully prepared to operate should it be necessary, but does not expect a strike. The contingency inventory increase is likely to result in above-trend volume performance in the first quarter.

Wholesaler Equity Agreement

In the second quarter 1997, the company implemented an amended wholesaler equity agreement with its family of independent wholesalers. The amended agreement, which is the result of a joint effort between Anheuser-Busch and its wholesalers, better addresses the active involvement of wholesalers in their markets and updates wholesaler performance standards to reflect the competitive situation in today's beer business.

Environmental Matters

The company is subject to federal, state and local environmental protection laws and regulations and is operating within such laws or is taking action aimed at assuring compliance with such laws and regulations. Compliance with these laws and regulations is not expected to materially affect the company's competitive position. None of the Environmental Protection Agency (EPA) designated clean-up sites for which Anheuser-Busch has been identified as a Potentially Responsible Party (PRP) would have a material impact on the company's consolidated financial statements.

The company is strongly committed to environmental protection. Its Environmental Management System provides specific guidance for how the environment must be factored into business decisions and mandates special consideration of environmental issues in conjunction with other business issues when any of the company's facilities or business units plans capital projects or changes in processes.

REPORT OF INDEPENDENT ACCOUNTANTS

The management of Anheuser-Busch Companies, Inc. is responsible for the financial statements and other information included in this annual report. These statements are prepared in accordance with generally accepted accounting principles.

The company maintains accounting and reporting systems, supported by a system of internal accounting control, which management believes are adequate to provide reasonable assurances that assets are safeguarded against loss from unauthorized use or disposition and financial records are reliable for preparing financial statements. During 1997, the company's internal auditors, in conjunction with Price Waterhouse LLP, the company's independent accountants, performed a comprehensive review of the adequacy of the company's internal accounting control system. Based on that comprehensive review, it is management's opinion that the company has an effective system of internal accounting control.

The Audit Committee of the Board of Directors, which consists of eight nonmanagement directors, oversees the company's financial reporting and internal control systems, recommends selection of the company's independent accountants and meets with the independent accountants and internal auditors to review the overall scope and specific plans for their respective audits. The Committee held four meetings during 1997. A more complete description of the functions performed by the Audit Committee can be found in the company's proxy statement.

The report of Price Waterhouse LLP appears below.

Price Waterhouse LLP

800 Market Street • St. Louis, MO 63101

February 3, 1998

To the Shareholders and Board of Directors
of Anheuser-Busch Companies, Inc.



We have audited the accompanying Consolidated Balance Sheet of Anheuser-Busch Companies, Inc. and its subsidiaries as of December 31, 1997 and 1996, and the related Consolidated Statements of Income, Changes in Shareholders Equity and Cash Flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements audited by us present fairly, in all material respects, the financial position of Anheuser-Busch Companies, Inc. and its subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

As discussed in Note 2 and Note 3 to the Consolidated Financial Statements, in 1997 the company adopted the equity method of accounting for its investments in Grupo Modelo, S.A. de C.V. and its operating subsidiary, Diblo, S.A. de C.V. and changed its method of accounting for business process reengineering costs incurred in connection with information technology transformation projects, respectively.

Price Waterhouse LLP

CONSOLIDATED BALANCE SHEET

Anheuser-Busch Companies and Subsidiaries

(In millions)

| December 31, | 1997 | 1996 |
|------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and marketable securities..... | \$ 147.3 | \$ 93.6 |
| Accounts and notes receivable, less allowance for doubtful accounts of \$4.9 and \$3.1 in 1997 and 1996 | 713.4 | 632.7 |
| Inventories: | | |
| Raw materials and supplies..... | 328.7 | 319.5 |
| Work in process | 87.8 | 80.6 |
| Finished goods..... | 133.7 | 131.0 |
| Total inventories | 550.2 | 531.1 |
| Other current assets | 173.0 | 208.4 |
| Total current assets..... | 1,583.9 | 1,465.8 |
| INVESTMENTS IN AFFILIATED COMPANIES | 1,296.8 | 741.2 |
| OTHER ASSETS..... | 1,095.8 | 1,048.4 |
| PLANT AND EQUIPMENT, NET | 7,750.6 | 7,208.2 |
| Total Assets..... | <u>\$11,727.1</u> | <u>\$10,463.6</u> |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable..... | \$ 791.8 | \$ 726.8 |
| Accrued salaries, wages and benefits | 224.3 | 227.6 |
| Accrued taxes | 183.9 | 233.0 |
| Other current liabilities | 300.7 | 243.5 |
| Total current liabilities..... | 1,500.7 | 1,430.9 |
| POSTRETIREMENT BENEFITS..... | 525.4 | 524.6 |
| LONG-TERM DEBT | 4,365.6 | 3,270.9 |
| DEFERRED INCOME TAXES..... | 1,293.6 | 1,208.1 |
| COMMON STOCK AND OTHER SHAREHOLDERS EQUITY: | | |
| Common stock, \$1.00 par value, authorized 800,000,000 shares | 709.3 | 705.8 |
| Capital in excess of par value..... | 1,017.0 | 929.2 |
| Retained earnings | 7,604.9 | 6,924.5 |
| Foreign currency translation adjustment | (214.0) | (8.8) |
| | 9,117.2 | 8,550.7 |
| Treasury stock, at cost | (4,793.3) | (4,206.2) |
| ESOP debt guarantee | (282.1) | (315.4) |
| | 4,041.8 | 4,029.1 |
| COMMITMENTS AND CONTINGENCIES | — | — |
| Total Liabilities and Equity..... | <u>\$11,727.1</u> | <u>\$10,463.6</u> |

The company's financial statements should be read in conjunction with the Notes to Consolidated Financial Statements appearing on pages 54-73 of this report.

CONSOLIDATED STATEMENT OF INCOME

Anheuser-Busch Companies and Subsidiaries

(In millions, except per share)

| Year Ended December 31, | 1997 | 1996 | 1995 |
|-------------------------------------------------------------------|-------------|------------|------------|
| Sales | \$ 12,832.4 | \$12,621.5 | \$12,004.5 |
| Less excise taxes..... | 1,766.2 | 1,737.8 | 1,664.0 |
| Net sales..... | 11,066.2 | 10,883.7 | 10,340.5 |
| Cost of products and services..... | 7,096.9 | 6,964.6 | 6,791.0 |
| Gross profit | 3,969.3 | 3,919.1 | 3,549.5 |
| Marketing, distribution and administrative expenses..... | 1,916.3 | 1,890.0 | 1,756.6 |
| Gain on sale of St. Louis Cardinals..... | — | 54.7 | — |
| Shutdown of Tampa brewery | — | — | (160.0) |
| Operating income | 2,053.0 | 2,083.8 | 1,632.9 |
| Interest expense..... | (261.2) | (232.8) | (225.9) |
| Interest capitalized | 42.1 | 35.5 | 24.3 |
| Interest income..... | 7.9 | 9.4 | 9.9 |
| Other income/(expense), net..... | (9.3) | (3.0) | 20.5 |
| Income before income taxes | 1,832.5 | 1,892.9 | 1,461.7 |
| Provision for income taxes: | | | |
| Current | 612.2 | 643.0 | 523.8 |
| Deferred | 91.4 | 93.8 | 51.3 |
| | 703.6 | 736.8 | 575.1 |
| Equity income, net of tax..... | 50.3 | — | — |
| Income from continuing operations..... | 1,179.2 | 1,156.1 | 886.6 |
| Income/(Loss) from discontinued operations | — | 33.8 | (244.3) |
| Income before cumulative effect of accounting change | 1,179.2 | 1,189.9 | 642.3 |
| Cumulative effect of accounting change, net of tax of \$6.2 | (10.0) | — | — |
| NET INCOME | \$ 1,169.2 | \$ 1,189.9 | \$ 642.3 |
| BASIC EARNINGS PER SHARE: | | | |
| Continuing operations..... | \$ 2.39 | \$ 2.31 | \$ 1.73 |
| Discontinued operations | — | .07 | (.47) |
| Income before cumulative effect of accounting change | 2.39 | 2.38 | 1.26 |
| Cumulative effect of accounting change..... | (.02) | — | — |
| Net income..... | \$ 2.37 | \$ 2.38 | \$ 1.26 |
| DILUTED EARNINGS PER SHARE: | | | |
| Continuing operations..... | \$ 2.36 | \$ 2.27 | \$ 1.71 |
| Discontinued operations | — | .07 | (.47) |
| Income before cumulative effect of accounting change..... | 2.36 | 2.34 | 1.24 |
| Cumulative effect of accounting change | (.02) | — | — |
| Net income..... | \$ 2.34 | \$ 2.34 | \$ 1.24 |

The company's financial statements should be read in conjunction with the Notes to Consolidated Financial Statements appearing on pages 54-73 of this report.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

Anheuser-Busch Companies and Subsidiaries

(In millions, except per share)

| | Common Stock | Capital in Excess of Par Value | Retained Earnings | Treasury Stock | ESOP Debt Guarantee | Foreign Currency Translation Adjustment |
|---------------------------------------------------------------------------------------|-----------------|--------------------------------------|----------------------|--------------------|---------------------------|--------------------------------------------------|
| BALANCE AT DECEMBER 31, 1994 | \$343.8 | \$ 856.8 | \$6,656.7 | \$(3,042.6) | \$(377.4) | \$ (21.8) |
| Net income..... | | | 642.3 | | | |
| Common dividends paid (\$0.84 per share) | | | (429.5) | | | |
| Shares issued under stock plans and conversions of convertible debentures | 3.5 | 155.4 | .1 | | | |
| Reduction of ESOP debt | | | | | 30.3 | |
| Treasury stock acquired..... | | | | (393.4) | | |
| Foreign currency translation adjustment..... | | | | | | 9.7 |
| BALANCE AT DECEMBER 31, 1995 | 347.3 | 1,012.2 | 6,869.6 | (3,436.0) | (347.1) | (12.1) |
| Net income..... | | | 1,189.9 | | | |
| Common dividends paid (\$0.92 per share) | | | (458.9) | | | |
| Shares issued under stock plans and conversions of convertible debentures | 9.0 | 266.5 | 3.9 | | | |
| Two-for-one stock split..... | 349.5 | (349.5) | | | | |
| Reduction of ESOP debt | | | | | 31.7 | |
| Treasury stock acquired..... | | | | (770.2) | | |
| Foreign currency translation adjustment..... | | | | | | 3.3 |
| Spin-off of The Earthgrains Company | | | (680.0) | | | |
| BALANCE AT DECEMBER 31, 1996 | 705.8 | 929.2 | 6,924.5 | (4,206.2) | (315.4) | (8.8) |
| Net income..... | | | 1,169.2 | | | |
| Common dividends paid (\$1.00 per share) | | | (492.6) | | | |
| Shares issued under stock plans | 3.5 | 87.8 | 3.8 | | | |
| Reduction of ESOP debt | | | | | 33.3 | |
| Treasury stock acquired..... | | | | (587.1) | | |
| Foreign currency translation adjustment..... | | | | | | (205.2) |
| BALANCE AT DECEMBER 31, 1997 | \$709.3 | \$1,017.0 | \$7,604.9 | \$(4,793.3) | \$(282.1) | \$(214.0) |

The company's financial statements should be read in conjunction with the Notes to Consolidated Financial Statements appearing on pages 54-73 of this report.

CONSOLIDATED STATEMENT OF CASH FLOWS

Anheuser-Busch Companies and Subsidiaries

(In millions)

| Year Ended December 31, | 1997 | 1996 | 1995 |
|------------------------------------------------------------------------------------------------------|-----------|------------|-----------|
| CASH FLOW FROM OPERATING ACTIVITIES: | | | |
| Net income..... | \$1,169.2 | \$ 1,189.9 | \$ 642.3 |
| Discontinued operations | — | (33.8) | 244.3 |
| Cumulative effect of accounting change..... | 10.0 | — | — |
| Income from continuing operations | 1,179.2 | 1,156.1 | 886.6 |
| Adjustments to reconcile income from continuing operations to cash provided by operating activities: | | | |
| Depreciation and amortization | 683.7 | 611.5 | 573.9 |
| Deferred income taxes..... | 91.4 | 93.8 | 51.3 |
| Undistributed earnings of affiliated companies ... | (49.9) | — | — |
| After-tax gain on sale of St. Louis Cardinals... | — | (33.4) | — |
| Shutdown of Tampa brewery | — | — | 112.3 |
| Decrease/(Increase) in noncash working capital..... | 5.4 | 233.7 | (262.0) |
| Other, net..... | (93.2) | (92.8) | 63.8 |
| Cash provided by operating activities | 1,816.6 | 1,968.9 | 1,425.9 |
| Net cash provided by/(provided to) discontinued operations | — | 52.0 | (11.0) |
| Total cash provided by operating activities | 1,816.6 | 2,020.9 | 1,414.9 |
| CASH FLOW FROM INVESTING ACTIVITIES: | | | |
| Capital expenditures..... | (1,199.3) | (1,084.6) | (952.5) |
| New business acquisitions..... | (683.3) | (135.7) | (82.9) |
| Proceeds from sale of St. Louis Cardinals | — | 116.6 | — |
| Cash used for investing activities | (1,882.6) | (1,103.7) | (1,035.4) |
| CASH FLOW FROM FINANCING ACTIVITIES: | | | |
| Increase in long-term debt..... | 1,245.9 | 773.6 | 597.6 |
| Decrease in long-term debt | (141.6) | (575.1) | (296.4) |
| Dividends paid to shareholders | (492.6) | (458.9) | (429.5) |
| Acquisition of treasury stock..... | (587.1) | (770.2) | (393.4) |
| Shares issued under stock plans | 95.1 | 113.4 | 91.8 |
| Cash provided by/(used for) financing activities | 119.7 | (917.2) | (429.9) |
| Net increase/(decrease) in cash and marketable securities during the year | 53.7 | — | (50.4) |
| Cash and marketable securities, beginning of year..... | 93.6 | 93.6 | 144.0 |
| Cash and marketable securities, end of year | \$ 147.3 | \$ 93.6 | \$ 93.6 |

The company's financial statements should be read in conjunction with the Notes to Consolidated Financial Statements appearing on pages 54-73 of this report.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES

This summary of the significant accounting principles and policies of Anheuser-Busch Companies, Inc. and its subsidiaries is presented to assist in evaluating the company's Consolidated Financial Statements included in this annual report. These principles and policies conform to generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions which impact the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates and assumptions.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the company and all its subsidiaries. The company generally consolidates all majority-owned subsidiaries, accounts for equity investments below the 20% level under the cost method and applies the equity method of accounting for equity investments between 20% and 50%. All significant intercompany transactions have been eliminated. Minority interests in consolidated subsidiaries are not material.

Foreign Currency Translation

Financial statements of foreign operations where the local currency is the functional currency are translated using period-end exchange rates for assets and liabilities, and weighted average exchange rates during the period for the results of operations. Translation adjustments are reported as a separate component of shareholders equity. Translation practice differs for foreign operations in hyperinflationary economies. See Note 2 for additional discussion. Exchange rate adjustments related to foreign currency transactions are recognized in income as incurred.

Cash and Marketable Securities

Cash and marketable securities include cash on hand, demand deposits and short-term investments with initial maturities generally of 90 days or less.

Excess of Cost Over Net Assets of Acquired Businesses (Goodwill)

The excess of the cost over the net assets of acquired businesses, which is included in Other Assets on the Consolidated Balance Sheet, is amortized on a straight-line basis over a period of 40 years. Accumulated amortization at December 31, 1997 and 1996 was \$106.6 million and \$93.7 million, respectively. The on-going recoverability of goodwill is monitored based on analysis of appropriate operating unit performance and consideration of significant events or changes in the overall business environment.

Inventories and Production Costs

Inventories are valued at the lower of cost or market. Cost is determined under the last-in, first-out method (LIFO) for approximately 75% and 76%, respectively, of total inventories at December 31, 1997 and 1996. Had the average-cost method (which approximates replacement cost) been used with respect to such inventories at December 31, 1997 and 1996, total inventories would have been \$117.5 million and \$124.3 million higher, respectively.

Plant and Equipment

Plant and equipment is carried at cost and includes expenditures for new facilities and expenditures which substantially increase the useful lives of existing facilities. The cost of maintenance, repairs and minor renewals is expensed as incurred. When plant and equipment are retired or otherwise disposed, the related cost and accumulated depreciation are eliminated and any gain or loss on disposition is recognized in earnings.

Depreciation is provided on the straight-line method over the estimated useful lives of the assets, resulting in annual depreciation rates on buildings ranging from 2% to 10% and on machinery and equipment ranging from 4% to 25%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes

The provision for income taxes is based on income and expense amounts as reported in the Consolidated Statement of Income. The company utilizes certain provisions of federal income tax laws and regulations to reduce current taxes payable. Deferred income taxes are recognized for the effect of temporary differences between financial and tax reporting in accordance with the requirements of FAS No. 109, "Accounting for Income Taxes."

Derivative Financial Instruments

All derivative instruments held by the company are designated as hedges, have high correlation with the underlying exposure and are highly effective in offsetting underlying price movements. Accordingly, gains and losses from changes in derivative fair values are deferred. Gains or losses upon settlement of derivative positions when the underlying transaction occurs are recognized in the income statement or recorded as part of the underlying asset or liability, as appropriate depending on the circumstances. Gains and losses upon settlement of derivative positions because the underlying transaction is no longer expected to occur are recognized in earnings in the period incurred. Option premiums paid are recorded as assets and amortized over the life of the option. Excluding certain interest rate swaps, derivatives generally have initial terms of less than two years and all currently hedged transactions are expected to occur within the next two years. See Note 4 for additional information.

Research and Development Costs, Advertising and Promotional Costs, and Initial Plant Costs

Research and development costs, advertising and promotional costs, and initial plant costs are expensed in the year in which these costs are incurred. Advertising and promotional expenses were \$603.6 million, \$701.3 million and \$683.0 million in 1997, 1996 and 1995, respectively.

Earnings Per Share

Basic earnings per share are based on the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share are based on the weighted average number of shares of common stock and common stock equivalents outstanding during the year. See Note 17 for additional information.

Systems Development Costs

The company capitalizes certain systems development costs that meet established criteria. Amounts capitalized are amortized to expense over a five-year period. In 1997, 1996 and 1995, the company capitalized systems development costs of \$32.6 million, \$83.0 million, and \$43.7 million, respectively. Accumulated amortization related to capitalized systems costs was \$59.4 million and \$25.8 million at December 31, 1997 and 1996, respectively.

Stock-Based Compensation

The company accounts for employee stock options in accordance with Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees." Under APB 25, the company applies the intrinsic value method of accounting and therefore does not recognize compensation expense for options granted, because options are only granted at a price equal to the market price on the day of grant.

During 1996, FAS No. 123, "Accounting for Stock-Based Compensation," became effective for the company. FAS 123 prescribes the recognition of compensation expense based on the fair value of options as determined on the grant date. However, FAS 123 allows companies to continue applying APB 25 if certain pro forma disclosures are made assuming hypothetical fair value method application. See Note 5 for additional information.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. BUSINESS INVESTMENTS

In 1993, Anheuser-Busch purchased a 17.7% direct and indirect equity interest in Diblo S.A. de C.V., the operating subsidiary of Grupo Modelo S.A. de C.V., Mexico's largest brewer and producer of the Corona brand, for \$477 million. In May 1997, the company increased its direct and indirect equity ownership in Diblo to 37% for an additional \$605 million. Effective with the increase in equity ownership to 37%, the company received expanded minority rights, increased its representation on Modelo's Board of Directors to 10 of 21 members and adopted the equity method of accounting for its investment. Equity income recognized in 1997 reflects the company's 17.7% ownership from January through May and its 37% ownership thereafter. The difference between income recognized on the cost basis in prior years and what would have been recognized had the company applied equity accounting in those years is not material. Included in the carrying amount of the Modelo investment is goodwill of \$246.3 million, which is being amortized over 40 years. Dividends received from Grupo Modelo in 1997 totaled \$16.4 million.

In June 1997, the company exercised its remaining option to purchase an additional 13.2% equity interest in Diblo for \$550 million. Due diligence is complete and the company and the controlling shareholders of Grupo Modelo are pursuing arbitration to resolve a dispute concerning the purchase price for the option shares. When completed, the company will own a 50.2% direct and indirect interest in Diblo. However, the company will not have voting control and will therefore continue to account for its Modelo investment on the equity basis.

For foreign operations in countries whose economies are considered highly inflationary (cumulative three-year inflation in excess of 100%, therefore the U.S. dollar is deemed the functional currency), currency translation practice in accordance with FAS No. 52, "Foreign Currency Translation," requires that property, other long-lived assets, long-term liabilities and related profit and loss accounts be translated at historical rates of exchange. Also, net monetary asset and liability related translation adjustments are included in earnings for operations in highly inflationary economies. Effective January 1, 1997, Mexico's economy was deemed highly inflationary for accounting purposes under FAS 52 and, accordingly, all monetary translation gains and losses related to the Modelo and Diblo investments will be recognized in equity income until the hyperinflationary period ends.

Summary financial information for Grupo Modelo is presented below (in millions). The amounts presented are implied consolidated Grupo Modelo operating results and financial position adjusted as necessary to account for differences between Mexican and U.S. generally accepted accounting principles, and reflect Anheuser-Busch's appropriate pro rata equity interest during the year.

| | 1997 |
|-----------------------------------------|----------|
| Current assets..... | \$ 856.7 |
| Noncurrent assets..... | 2,297.5 |
| Current liabilities | 176.0 |
| Noncurrent liabilities..... | 58.2 |
| Gross sales..... | 1,353.6 |
| Net sales | 1,268.2 |
| Gross profit..... | 594.6 |
| Minority interest..... | 26.6 |
| Income from continuing operations | 138.0 |
| Net income | 138.0 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In April 1996, the company invested \$52.5 million to purchase a 5% equity stake in Antarctica Empreendimentos e Participacoes (ANEP), a subsidiary controlling approximately 75% of the operations of Companhia Antarctica Paulista (Antarctica), one of Brazil's leading brewers. As a result of holding certain minority rights and having gained representation on the ANEP Board of Directors in late 1996, the company changed its accounting method for the investment in ANEP from the cost to the equity method effective January 1, 1997. The difference between income recognized on the cost basis in 1996 and what would have been recognized had the company applied equity accounting is not material. The company also owns a 51% interest in, and operates a joint venture with, Antarctica for the marketing, sales and distribution of Budweiser in Brazil. The joint venture, Budweiser Brasil Ltda., is consolidated.

In February 1996, the company entered into a brewing and distribution alliance with Compañía Cervecerías Unidas S.A. (CCU) and Buenos Aires Embotelladora S.A. (BAESA) and purchased a 4.4% stake in CCU-Argentina, CCU's Argentine brewing subsidiary, for \$4 million in combined cash and equipment. The investment in CCU-Argentina is accounted for on the cost basis.

The company owns an 86.6% interest in a joint venture which owns the Wuhan brewery located in the People's Republic of China (China). The joint venture brews and distributes Budweiser primarily in the northern, eastern and central regions of China. The Wuhan joint venture is consolidated.

In 1997, the company purchased the remaining 50% of the Stag Brewing Company Ltd. (SBCL) from its partner Scottish Courage. Budweiser is brewed and packaged at the Stag Brewery primarily for distribution in the United Kingdom. Scottish Courage owns and leases the brewery site to SBCL. The company's investment in SBCL is now consolidated.

In 1997 the company purchased a 30.9% equity stake in Widmer Bros. Brewing of Portland, Ore. Widmer products are distributed exclusively through Anheuser-Busch wholesalers in substantially all major U.S. markets. The company accounts for this investment under the equity method.

3. CHANGE IN ACCOUNTING PRINCIPLE

In November 1997, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board released consensus No. 97-13, "Accounting for Costs Incurred in Connection with a Consulting Project or an Internal Project That Combines Business Process Reengineering and Information Technology Transformation." The EITF consensus specifically defined systems reengineering costs and mandated such costs be expensed as incurred. Additionally, any systems reengineering costs previously capitalized and unamortized were to be immediately charged against earnings.

In accordance with the EITF consensus, the company recorded a \$10 million after-tax charge (\$.02 per share) for capitalized systems reengineering costs in the fourth quarter 1997. The charge is shown as a separate cumulative effect of accounting change line item in the Consolidated Statement of Income. Prospectively, the company will expense all such costs as incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. FINANCIAL INSTRUMENTS

The company currently uses the following derivative financial instruments: purchased options and forward contracts for foreign currency risk; swaps for interest rate risk; and futures, swaps and purchased options for commodity price risk. All derivatives are off-balance-sheet and therefore have no carrying value. Because the company hedges only with instruments that have high correlation with the underlying transaction pricing, changes in derivatives fair value are expected to be offset by changes in pricing.

The following table summarizes the underlying notional transaction amounts and fair values for outstanding derivatives, by risk category and instrument type, at December 31 (in millions):

| | 1997 | | 1996 | |
|----------------------------------|-----------------|------------|-----------------|------------|
| | Notional Amount | Fair Value | Notional Amount | Fair Value |
| Foreign Currency: | | | | |
| Forwards..... | \$ 75.7 | \$ (1.1) | \$ 35.3 | \$.2 |
| Options | 265.5 | 15.3 | 209.2 | 9.9 |
| | 341.2 | 14.2 | 244.5 | 10.1 |
| Interest Rate: | | | | |
| Swaps | 425.2 | (49.8) | 487.4 | (12.5) |
| Commodity Price: | | | | |
| Swaps | 140.5 | (2.9) | 105.2 | 5.7 |
| Futures | 22.9 | (.4) | 37.1 | 2.5 |
| Options | 5.6 | — | 68.3 | (1.5) |
| | 169.0 | (3.3) | 210.6 | 6.7 |
| Total of outstanding derivatives | \$935.4 | \$(38.9) | \$942.5 | \$ 4.3 |

The interest rate swap and currency exchange agreements related to the dual-currency notes discussed in Note 8 are included as interest rate swaps in the preceding table. These agreements are entered into as an integral part of an overall structure with the dual-currency notes to provide the company with floating-rate financing at rates below market rates for commercial paper.

Because the company has operations in Japan and the United Kingdom, it has “long” exposure to the yen and the pound, respectively. The company’s exposures to other currencies are essentially “short,” primarily for the German mark. Long indicates the company has foreign currency in excess of its needs while short indicates the company requires additional foreign currency to meet its needs. For commodity derivatives, as a net user of raw materials, the company’s underlying exposure is naturally short, indicating additional quantities must be obtained to meet anticipated production requirements.

Concentration of Credit Risk

The company does not have a material concentration of accounts receivable or other credit risk.

Nonderivative Financial Instruments

Nonderivative financial instruments included in the Consolidated Balance Sheet are cash, commercial paper and long-term debt. The fair value of long-term debt, based on future cash flows discounted at interest rates currently available to the company for debt with similar maturities and characteristics, was \$4.5 billion and \$3.4 billion at December 31, 1997 and 1996, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. STOCK OPTION PLANS

Under terms of the company's incentive stock option plans, officers and certain other employees may be granted options to purchase the company's common stock at no less than 100% of the market price on the date the option is granted. Options generally vest over three years and have a maximum term of 10 years. At December 31, 1997, 1996 and 1995, a total of 27 million, 31 million and 36.1 million shares, respectively, were reserved for future issuance under the plans. Certain of the plans also provide for the granting of stock appreciation rights (SARs) in tandem with stock options. The exercise of an SAR cancels the related option and the exercise of an option cancels the related SAR. There were no SARs outstanding under the plans at December 31, 1997 and 1996.

Had compensation expense for the company's stock options been recognized based on the fair value on the grant date under the methodology prescribed by FAS 123, the company's income from continuing operations and earnings per share for the years ended December 31, 1997 and 1996 would have been impacted as shown in the following table (in millions, except per share). The pro forma results shown below reflect only the impact of options granted in 1996 and 1995. Because options are granted at the end of the year, there is no pro forma impact for 1995. The pro forma impact is expected to increase in 1998 and then remain relatively constant thereafter, absent significant changes to valuation assumptions or option grant patterns.

| | 1997 | 1996 |
|----------------------------------------------------------------------|-----------|-----------|
| Reported income from continuing operations | \$1,179.2 | \$1,156.1 |
| Pro forma income from continuing operations..... | 1,165.0 | 1,149.0 |
| Reported diluted earnings per share from continuing operations..... | 2.36 | 2.27 |
| Pro forma diluted earnings per share from continuing operations..... | 2.33 | 2.26 |

The fair value of options granted (which is amortized to expense over the option vesting period in determining the pro forma impact), is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

| | 1997 | 1996 | 1995 |
|-------------------------------------------------------|--------|--------|--------|
| Expected life of option | 5 yrs. | 5 yrs. | 5 yrs. |
| Risk-free interest rate | 5.7% | 6.2% | 5.5% |
| Expected volatility of Anheuser-Busch stock | 15% | 15% | 15% |
| Expected dividend yield on Anheuser-Busch stock | 2.3% | 2.3% | 2.5% |

The weighted average fair value of options granted during 1997, 1996 and 1995 is as follows:

| | 1997 | 1996 | 1995 |
|------------------------------------------------------------|--------|--------|--------|
| Fair value of each option granted | \$8.37 | \$8.30 | \$5.98 |
| Total number of options granted (in millions) | 5.6 | 4.1 | 5.8 |
| Total fair value of all options granted (in millions) | \$46.9 | \$34.0 | \$34.7 |

In accordance with FAS 123, the weighted average fair value of stock options granted is required to be based on a theoretical statistical model using the preceding Black-Scholes assumptions. In actuality, because the company's incentive stock options are not traded on any exchange, employees can receive no value nor derive any benefit from holding stock options under these plans without an increase in the market price of Anheuser-Busch stock. Such an increase in stock price would benefit all stockholders commensurately.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Presented below is a summary of stock option plans activity for the years shown:

| | <u>Options</u> | <u>Wtd. Avg. Exercise Price</u> | <u>Options Exercisable</u> | <u>Wtd. Avg. Exercise Price</u> |
|-----------------------------------|--------------------|-------------------------------------|----------------------------|-------------------------------------|
| Balance, December 31, 1994 | 24,871,180 | \$22.37 | | |
| Granted | 5,779,850 | 32.33 | | |
| Exercised | (5,051,464) | 18.59 | | |
| Cancelled | <u>(306,688)</u> | 25.79 | | |
| Balance, December 31, 1995 | 25,292,878 | \$25.36 | 15,259,418 | \$22.93 |
| Granted | 4,149,588 | 40.59 | | |
| Exercised | (4,945,152) | 22.37 | | |
| Cancelled | <u>(176,650)</u> | 28.22 | | |
| Balance, December 31, 1996 | 24,320,664 | \$28.55 | 15,234,258 | \$24.67 |
| Granted | <u>5,557,073</u> | <u>43.37</u> | | |
| Exercised | <u>(3,971,384)</u> | <u>22.48</u> | | |
| Cancelled | <u>(185,377)</u> | <u>35.11</u> | | |
| Balance, December 31, 1997 | <u>25,720,976</u> | <u>\$32.64</u> | <u>15,908,186</u> | <u>\$27.69</u> |

The following table summarizes information for options currently outstanding and exercisable at December 31, 1997:

| Range of Prices | <u>Options Outstanding</u> | | | <u>Options Exercisable</u> | |
|--------------------|----------------------------|-------------------------------------|-------------------------------------|----------------------------|-------------------------------------|
| | <u>Number</u> | <u>Wtd. Avg. Remaining Life</u> | <u>Wtd. Avg. Exercise Price</u> | <u>Number</u> | <u>Wtd. Avg. Exercise Price</u> |
| <u>\$15-26</u> | <u>7,946,134</u> | <u>5 yrs</u> | <u>\$22.71</u> | <u>7,946,134</u> | <u>\$22.71</u> |
| <u>27-37</u> | <u>8,223,126</u> | <u>7 yrs</u> | <u>31.08</u> | <u>6,450,272</u> | <u>30.73</u> |
| <u>38-45</u> | <u>9,551,716</u> | <u>9 yrs</u> | <u>42.25</u> | <u>1,511,780</u> | <u>40.90</u> |
| <u>\$15-45</u> | <u>25,720,976</u> | <u>7 yrs</u> | <u>\$32.64</u> | <u>15,908,186</u> | <u>\$27.69</u> |

Option quantities and prices have been adjusted for the impact of the Earthgrains spin-off and the two-for-one stock split in September 1996.

The company's stock option plans provide for acceleration of exercisability of the options upon the occurrence of certain events relating to a change of control, merger, sale of assets or liquidation of the company (Acceleration Events). Certain of the plans also provide that optionees may be granted Limited Stock Appreciation Rights (LSARs). LSARs become exercisable, in lieu of an option, upon the occurrence, at least six months following the date of grant, of an Acceleration Event. The LSARs entitle the holder to a cash payment per share equivalent to the excess of the share value (under terms of the LSAR) over the grant price. As of December 31, 1997 and 1996, there were .4 million and 1.0 million, respectively, of LSARs outstanding.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. EMPLOYEE STOCK OWNERSHIP PLANS

In 1989, the company added Employee Stock Ownership Plans (ESOPs) to its existing Deferred Income Stock Purchase and Savings Plans. Most regular employees are eligible for participation in the ESOPs. The ESOPs initially borrowed \$500 million for a term of 15 years at an interest rate of 8.3% and used the proceeds to buy approximately 22.7 million shares of common stock from the company at market price. The debt is guaranteed by the company and the shares are being allocated to participants over 15 years as contributions are made to the plans.

ESOP cash contributions and expense accrued during the calendar year are determined by several factors, including the market price and number of shares allocated to participants, debt service, dividends on unallocated shares and the company's matching contribution. Over the 15-year life of the ESOPs, total expense recognized will equal total cash contributions made by the company.

ESOP cash contributions are made in March and September in accordance with debt service requirements. A summary of cash contributions and dividends on unallocated ESOP shares for the three years ended December 31 is presented below (in millions):

| | 1997 | 1996 | 1995 |
|--------------------------|---------|--------|--------|
| Cash contributions | \$ 15.2 | \$21.8 | \$45.8 |
| Dividends | \$ 9.9 | \$10.4 | \$10.8 |

Total ESOP expense is allocated to operating expense and interest expense based on the ratio of principal and interest payments on the debt. Total ESOP expense for the three years ended December 31 is presented below (in millions):

| | 1997 | 1996 | 1995 |
|-------------------------|--------|--------|--------|
| Operating expense | \$ 8.6 | \$14.3 | \$19.6 |
| Interest expense | 6.7 | 11.6 | 18.0 |
| Total expense | \$15.3 | \$25.9 | \$37.6 |

7. RETIREMENT BENEFITS

Pension Plans

The company has pension plans covering substantially all of its regular employees. Total pension expense for the three years ended December 31 is presented below (in millions):

| | 1997 | 1996 | 1995 |
|---------------------------------------------|---------|--------|--------|
| Single-employer defined benefit plans | \$ 12.0 | \$18.6 | \$29.6 |
| Multi-employer plans | 13.2 | 20.2 | 26.1 |
| Defined contribution plans | 15.9 | 18.3 | 15.0 |
| Total pension expense | \$ 41.1 | \$57.1 | \$70.7 |

Net pension expense for single-employer defined benefit plans was comprised of the following for the three years ended December 31 (in millions):

| | 1997 | 1996 | 1995 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|---------|--------|
| Service cost (benefits earned during the year) | \$ 51.5 | \$49.3 | \$41.0 |
| Interest cost on projected benefit obligation | 100.7 | 76.3 | 64.4 |
| Assumed return on assets | (141.0) | (107.9) | (80.6) |
| Amortization of prior service cost, actuarial gains/losses and the excess of market value of plan assets over projected benefit obligation at January 1, 1986 | .8 | .9 | 4.8 |
| Net pension expense | \$ 12.0 | \$18.6 | \$29.6 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The key actuarial assumptions used in determining annual pension expense for single-employer defined benefit plans were as follows for the three years ended December 31:

| | 1997 | 1996 | 1995 |
|------------------------------------------------------|-------|-------|-------|
| Discount rate | 7.75% | 7.5% | 8.0% |
| Long-term rate of return on plan assets..... | 10.0% | 10.0% | 10.0% |
| Weighted-average rate of compensation increase | 5.5% | 5.5% | 5.5% |

The actual dollar return on pension assets was \$396.1 million, \$142.3 million and \$140.9 million in 1997, 1996 and 1995, respectively.

The following tables set forth the funded status of all company single-employer defined benefit plans at December 31 (in millions):

| | 1997 | 1996 |
|--------------------------------------------------------------------------------------------------------|-----------|------------|
| Plan assets at fair market value—primarily corporate equity securities and publicly traded bonds | \$1,821.4 | \$ 1,237.4 |
| Accumulated benefit obligation: | | |
| Vested benefits..... | (1,138.6) | (846.7) |
| Nonvested benefits | (123.1) | (84.1) |
| Accumulated benefit obligation | (1,261.7) | (930.8) |
| Effect of projected compensation increases..... | (166.7) | (180.5) |
| Projected benefit obligation | (1,428.4) | (1,111.3) |
| Plan assets in excess of projected benefit obligation..... | \$ 393.0 | \$ 126.1 |

Plan assets in excess of projected benefit obligation consist of the following at December 31:

| | 1997 | 1996 |
|-------------------------------------------------------------------------------------------------------------------------------------------|---------|---------|
| Unamortized excess of market value of plan assets over projected benefit obligation at January 1, 1986 being amortized over 15 years..... | \$ 33.3 | \$ 40.5 |
| Unrecognized net actuarial gains/(losses) | 240.8 | (7.8) |
| Prior service costs | (66.2) | (73.9) |
| Prepaid pension..... | 185.1 | 167.3 |
| | \$393.0 | \$126.1 |

The assumptions used in determining the funded status of the plans as of December 31 were as follows:

| | 1997 | 1996 |
|------------------------------------------------------|-------|-------|
| Discount rate..... | 7.5% | 7.75% |
| Weighted-average rate of compensation increase | 4.75% | 5.5% |

Contributions to multi-employer plans in which the company and its subsidiaries participate are determined in accordance with the provisions of negotiated labor contracts and are based on employee hours worked.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Postretirement Benefits Other Than Pensions

The company provides certain health care and life insurance benefits to eligible retired employees. Most current participants become eligible for retiree health care benefits if they accrue 10 years of continuous service after age 45.

The following table sets forth the accumulated postretirement benefit obligation (APBO) and the total postretirement benefit liability for all single-employer defined benefit plans at December 31 (in millions):

| | <i>1997</i> | <i>1996</i> |
|-----------------------------------------------------|----------------|-------------|
| Retirees | <i>\$145.0</i> | \$125.4 |
| Fully eligible active plan participants | <i>79.4</i> | 77.0 |
| Other active plan participants | <i>94.0</i> | 94.2 |
| Accumulated postretirement benefit obligation | <i>318.4</i> | 296.6 |
| Unrecognized prior service benefits | <i>99.6</i> | 111.2 |
| Unrecognized net actuarial gains | <i>119.4</i> | 128.8 |
| Total postretirement benefit liability..... | <i>\$537.4</i> | \$536.6 |

As of December 31, 1997 and 1996, \$12.0 million of these obligations were classified as current liabilities and \$525.4 million and \$524.6 million were classified as long-term liabilities, respectively.

Net periodic postretirement benefits expense for single-employer defined benefit plans was comprised of the following for the three years ended December 31 (in millions):

| | <i>1997</i> | <i>1996</i> | <i>1995</i> |
|--------------------------------------------------------------------|---------------|-------------|-------------|
| Service cost (benefits attributed to service during the year) ... | <i>\$12.0</i> | \$17.1 | \$20.8 |
| Interest cost on accumulated postretirement benefit obligation.... | <i>23.2</i> | 22.9 | 23.9 |
| Amortization of prior service benefit..... | <i>(11.7)</i> | (11.7) | (11.8) |
| Amortization of actuarial gains..... | <i>(10.1)</i> | (7.4) | — |
| Net periodic postretirement benefits expense | <i>\$13.4</i> | \$20.9 | \$32.9 |

In measuring the APBO, annual trend rates for health care costs of 8.3%, 9.0% and 12.5% were assumed for 1997, 1996 and 1995, respectively. These rates were assumed to decline ratably over the subsequent 9-12 years to 5.3% for 1997 and 6.5% for 1996 and 1995, and remain at that level thereafter. The weighted average discount rate used in determining the APBO was 8.0% and 8.25% at December 31, 1997 and 1996, respectively.

If the assumed health care cost trend rate changed by 1%, the APBO as of December 31, 1997 would change by 15%. The effect of a 1% change in the cost trend rate on the service and interest cost components of net periodic postretirement benefits expense would be a change of 18%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. LONG-TERM DEBT

Long-term debt at December 31 consisted of the following (in millions):

| | 1997 | 1996 |
|-------------------------------------------------------------------------------------------|------------------|------------------|
| Commercial Paper (weighted average interest rates of 5.5% in 1997 and 5.3% in 1996) | \$ 591.9 | \$ 155.5 |
| Medium-term Notes Due 1998 to 2001 (interest rates from 5.5% to 8.0%) | 62.5 | 95.0 |
| 8.625% Sinking Fund Debentures Maturing 1998 to 2016..... | 22.5 | 105.8 |
| 8.5% Sinking Fund Debentures Maturing 1998 to 2017..... | 45.5 | 45.5 |
| 8.75% Notes Due 1999 | 250.0 | 250.0 |
| 5.1% Japanese yen/Australian dollar Notes Due 1999..... | 262.4 | 262.4 |
| 4.1% Japanese yen/U.S. dollar Notes Due 2001 | 162.8 | — |
| 6.9% Notes Due 2002 | 200.0 | 200.0 |
| 6.75% Notes Due 2003 | 200.0 | 200.0 |
| 6.75% Notes Due 2005 | 200.0 | 200.0 |
| 7% Notes Due 2005 | 100.0 | 100.0 |
| 6.75% Notes Due 2006 | 250.0 | 250.0 |
| 7.1% Notes Due 2007 | 250.0 | — |
| 9% Debentures Due 2009 | 350.0 | 350.0 |
| 7.25% Debentures Due 2015 | 150.0 | 150.0 |
| 7.125% Notes Due 2017 | 250.0 | — |
| 7.375% Debentures Due 2023 | 200.0 | 200.0 |
| 7% Debentures Due 2025 | 200.0 | 200.0 |
| 6.75% Debentures Due 2027 | 100.0 | — |
| Industrial Revenue Bonds (interest rates from 5.625% to 7.4%)..... | 198.4 | 157.4 |
| 8.3% ESOP Debt..... | 282.1 | 315.4 |
| Other Long-term Debt | 37.5 | 33.9 |
| | <u>\$4,365.6</u> | <u>\$3,270.9</u> |

Gains/losses on debt redemptions (either individually or in the aggregate) are not material for any year presented.

In December 1996, simultaneous with the issuance of the 5.1% Japanese yen/Australian dollar notes, the company entered into a \$262.4 million notional amount interest rate swap and currency exchange agreement. In October 1997, the company entered into a similar swap and exchange agreement for the notional amount of the \$162.8 million of 4.1% Japanese yen/US dollar notes. Under the agreements, the counterparties will fund the semi-annual yen-denominated fixed-rate coupon payments and Anheuser-Busch will make quarterly LIBOR-based U.S. dollar-denominated floating-rate payments to the counterparties. The Australian dollar agreement also requires Anheuser-Busch to pay the counterparty \$262.4 million at maturity in exchange for the counterparty funding the Australian dollar redemption liability. The 4.1% dual-currency notes mature in U.S. dollars.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The impact of the Australian dollar exchange agreement on the company's 5.1% dual-currency notes at December 31 is as follows:

| | 1997 | 1996 |
|---------------------------------------------------------------|----------------|----------------|
| 5.1% Japanese yen/Australian dollar Notes Due 1999 | \$209.1 | \$255.3 |
| Effect of U.S. dollar/Australian dollar exchange agreement .. | 53.3 | 7.1 |
| | <u>\$262.4</u> | <u>\$262.4</u> |

Under the terms of the agreements, the U.S. dollar floating-rate interest payments and the dollar-denominated redemptions are the only obligations the company has relating to the dual-currency notes. All currency exchange risk between the U.S. dollar, the Australian dollar and the Japanese yen is borne by the applicable counterparty. Only in the event of counterparty default, the risk of which the company considers remote, would Anheuser-Busch be exposed to currency exchange risk.

The company has in place a single committed revolving credit agreement totaling \$1 billion, which expires in August 2001. The agreement provides that under certain circumstances the company may select among various loan arrangements with differing maturities and among a variety of interest rates, including a negotiated rate. At December 31, 1997 and 1996, the company had no outstanding borrowings under the agreement. Fees under the agreements were \$.6 million, \$.7 million and \$.8 million in 1997, 1996 and 1995, respectively.

At December 31, 1997 and 1996, outstanding commercial paper borrowings are classified as long-term debt because commercial paper is maintained on a long-term basis with ongoing credit support provided by the revolving credit agreement. The company may also choose to refinance some or all of its commercial paper debt with long-term notes or debentures.

In 1989, the company issued \$241.7 million of 8% debentures maturing in 1996 and convertible into preferred stock at a price of \$23.39 each (adjusted for the September 1996 stock split and the Earthgrains spin-off). Each share of preferred stock was convertible into one share of common stock. In September 1996, the company completed the conversion of all outstanding convertible debentures. In 1996 and 1995, the company issued 7.5 and 2.8 million common shares, respectively, in conjunction with conversions. No preferred shares are outstanding as a result of any conversions.

The aggregate maturities on long-term debt are \$25 million, \$544 million, \$15 million, \$170 million and \$200 million, respectively, for each of the years ending December 31, 1998 through 2002. These aggregate maturities do not include the future maturities of the ESOP debt or commercial paper.

9. INCOME TAXES

The provision for income taxes consists of the following for the three years ended December 31 (in millions):

| | 1997 | 1996 | 1995 |
|---------------------------|----------------|----------------|----------------|
| Current tax provision: | | | |
| Federal | \$510.9 | \$490.9 | \$435.4 |
| State and foreign | 101.3 | 106.8 | 106.4 |
| | <u>612.2</u> | <u>597.7</u> | <u>541.8</u> |
| Deferred tax provision: | | | |
| Federal | 78.2 | 139.2 | (76.6) |
| State and foreign | 13.2 | 19.9 | (10.0) |
| | <u>91.4</u> | <u>159.1</u> | <u>(86.6)</u> |
| Total tax provision | <u>\$703.6</u> | <u>\$756.8</u> | <u>\$455.2</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The provision for income taxes included in the Consolidated Statement of Income is as follows (in millions):

| | 1997 | 1996 | 1995 |
|-------------------------------|---------|---------|---------|
| Continuing operations..... | \$703.6 | \$736.8 | \$575.1 |
| Discontinued operations | — | 20.0 | (119.9) |
| Total tax provision..... | \$703.6 | \$756.8 | \$455.2 |

The deferred tax provision results from differences in the recognition of income and expense for tax and financial reporting purposes. The primary differences for continuing operations are related to fixed assets (tax effect of \$67.8 million in 1997, \$56.9 million in 1996 and \$45.4 million in 1995) and the Tampa brewery closure benefit (\$52.2 million) in 1995.

At December 31, 1997 the company had deferred tax liabilities of \$1,784.1 million and deferred tax assets of \$490.5 million. The temporary differences included in deferred tax liabilities are primarily related to fixed assets (\$1,549.6 million). The temporary differences included in deferred tax assets are related to accrued postretirement benefits (\$203.7 million) and other accruals and temporary differences (\$286.8 million) which are not deductible for tax purposes until paid or utilized.

A reconciliation between the statutory tax rate and the effective tax rate for continuing operations for the three years ended December 31 is presented below:

| | 1997 | 1996 | 1995 |
|-------------------------------------------|-------|-------|-------|
| Federal statutory tax rate..... | 35.0% | 35.0% | 35.0% |
| State taxes, net of federal benefit | 3.5 | 3.6 | 4.0 |
| Other taxes | (.1) | .3 | .3 |
| Effective tax rate..... | 38.4% | 38.9% | 39.3% |

10. BUSINESS SEGMENTS

The company's principal business segments are beer/beer-related and entertainment. The beer/beer-related segment produces and sells the company's beer products. Included in this segment are the company's raw material acquisition, malting, can manufacturing, recycling, communications and transportation operations. The entertainment segment consists of the company's Sea World, Busch Gardens and other theme parks and real estate development operations. Sales between segments and export sales are not material. No single customer accounted for more than 10% of sales.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summarized below is the company's business segment information for 1997, 1996 and 1995 (in millions). Intrasegment sales have been eliminated from each segment's reported net sales.

| | Net Sales (1) | | | Operating Income (2) (3) (4) | | |
|-------------------------|-------------------|------------|------------|------------------------------|-----------|-----------|
| | 1997 | 1996 | 1995 | 1997 | 1996 | 1995 |
| Beer/beer-related | \$10,253.5 | \$10,143.9 | \$ 9,585.9 | \$1,939.5 | \$1,934.2 | \$1,557.7 |
| Entertainment | 812.7 | 739.8 | 754.6 | 113.5 | 149.6 | 75.2 |
| Consolidated | \$11,066.2 | \$10,883.7 | \$10,340.5 | \$2,053.0 | \$2,083.8 | \$1,632.9 |

(1) Net sales for 1995 include the adverse impact of the beer wholesaler inventory reduction of \$107 million.

(2) Operating income excludes aggregate net interest expense and other income and expense of \$220.5 million, \$190.9 million and \$171.2 million, for 1997, 1996 and 1995, respectively.

(3) Operating income for the Entertainment segment in 1996 includes the \$54.7 million pretax gain on the sale of the Cardinals.

(4) Operating income for 1995 includes the impact of the one-time, pretax charge of \$160.0 million for the closure of the Tampa brewery plus the \$74.5 million adverse impact of the beer wholesaler inventory reduction.

| | Identifiable Assets (5) | | | Depreciation and Amortization Expense | | |
|----------------------------|-------------------------|------------|------------|---------------------------------------|---------|---------|
| | 1997 | 1996 | 1995 | 1997 | 1996 | 1995 |
| Beer/beer-related | \$ 9,653.4 | \$ 8,458.6 | \$ 7,915.4 | \$571.0 | \$508.8 | \$476.5 |
| Entertainment | 1,534.7 | 1,484.3 | 1,463.1 | 86.8 | 78.5 | 77.6 |
| Corporate | 539.0 | 520.7 | 448.4 | 25.9 | 24.2 | 19.8 |
| Discontinued operations .. | — | — | 764.0 | — | — | — |
| Consolidated | \$11,727.1 | \$10,463.6 | \$10,590.9 | \$683.7 | \$611.5 | \$573.9 |

(5) Corporate assets principally include cash, marketable securities and certain fixed assets.

| | Capital Expenditures | | |
|-------------------------|----------------------|-----------|---------|
| | 1997 | 1996 | 1995 |
| Beer/beer-related | \$1,027.9 | \$ 902.5 | \$808.8 |
| Entertainment | 150.6 | 151.6 | 101.9 |
| Corporate | 20.8 | 30.5 | 41.8 |
| Consolidated | \$1,199.3 | \$1,084.6 | \$952.5 |

New Business Segment Disclosures Standard

In June 1997, the Financial Accounting Standards Board issued FAS No. 131, "Disclosures about the Segments of an Enterprise and Related Information," which is effective for the company in calendar 1998. FAS 131 requires segment information to be reported on a "management" basis. Adoption of the Standard will expand the company's operating segment disclosures to include the following businesses: domestic beer, international beer, packaging and entertainment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. SUPPLEMENTAL INFORMATION

The company recorded a \$189.4 million adjustment to the carrying value of its Grupo Modelo-related investments for cumulative Mexican peso depreciation when it adopted equity accounting for those investments in 1997. The offset for the adjustment is to "foreign currency translation" in the shareholders equity section of the Consolidated Balance Sheet. The effect of currency exchange rate fluctuations was not material for 1996 and 1995. Accounts payable include \$123.9 million and \$92.8 million, respectively, of outstanding checks at December 31, 1997 and 1996.

Supplemental information with respect to the Consolidated Statement of Cash Flows for the three years ended December 31 is presented below (in millions):

| | 1997 | 1996 | 1995 |
|-----------------------------------------------------|-----------|-----------|------------|
| Cash paid during the year: | | | |
| Interest, net of interest capitalized | \$ 205.1 | \$ 208.0 | \$ 198.0 |
| Income taxes..... | 609.5 | 533.6 | 546.6 |
| Excise taxes..... | 1,760.6 | 1,720.1 | 1,680.6 |
| Noncash financing activities: | | | |
| Conversions of 8% convertible debentures..... | \$ — | \$ 166.0 | \$ 67.2 |
| Changes in noncash working capital: | | | |
| Decrease/(increase) in noncash current assets: | | | |
| Accounts receivable..... | \$ (80.7) | \$ (88.4) | \$ 54.2 |
| Inventories..... | (19.1) | 51.6 | (51.9) |
| Other current assets..... | 35.4 | 81.6 | (17.2) |
| Increase/(decrease) in current liabilities: | | | |
| Accounts payable..... | 65.0 | 44.0 | (73.8) |
| Accrued salaries, wages and benefits | (3.3) | (19.4) | 8.1 |
| Accrued taxes | (49.1) | 146.7 | (10.3) |
| Restructuring accrual..... | — | — | (50.2) |
| Other current liabilities | 57.2 | 17.6 | (120.9) |
| Decrease/(increase) in noncash working capital..... | \$ 5.4 | \$ 233.7 | \$ (262.0) |

The components of plant and equipment, net, at December 31 are summarized below (in millions):

| | 1997 | 1996 |
|--------------------------------|------------|------------|
| Land..... | \$ 243.9 | \$ 237.9 |
| Buildings..... | 3,355.5 | 3,172.2 |
| Machinery and equipment..... | 8,806.8 | 8,148.8 |
| Construction in progress..... | 821.4 | 655.8 |
| | 13,227.6 | 12,214.7 |
| Accumulated depreciation | (5,477.0) | (5,006.5) |
| | \$ 7,750.6 | \$ 7,208.2 |

The components of other assets at December 31 are summarized below (in millions):

| | 1997 | 1996 |
|----------------------------|------------|------------|
| Investment properties..... | \$ 128.1 | \$ 129.3 |
| Deferred charges..... | 515.8 | 483.3 |
| Goodwill..... | 451.9 | 435.8 |
| | \$ 1,095.8 | \$ 1,048.4 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summarized below is selected financial information for Anheuser-Busch, Inc. (a wholly-owned subsidiary of Anheuser-Busch Companies) for the years ended December 31 (in millions):

| | <i>1997</i> | <i>1996</i> | <i>1995</i> |
|----------------------------------------------|-------------------|-------------|-------------|
| Income Statement Information: | | | |
| Net sales | <i>\$ 8,116.1</i> | \$ 8,100.3 | \$7,594.9 |
| Gross profit | <i>3,141.2</i> | 3,172.4 | 2,889.6 |
| Income from continuing operations (1) (2) .. | <i>906.8</i> | 907.1 | 713.7 |
| Balance Sheet Information: | | | |
| Current assets | <i>\$ 623.9</i> | \$ 526.9 | |
| Noncurrent assets | <i>15,619.0</i> | 13,772.8 | |
| Current liabilities | <i>677.7</i> | 671.0 | |
| Noncurrent liabilities (1) | <i>4,599.4</i> | 3,569.7 | |

(1) Anheuser-Busch, Inc. is co-obligor for substantially all outstanding Anheuser-Busch Companies debt. Accordingly, all guaranteed debt is included as an element of noncurrent liabilities, with interest thereon included in the determination of income from continuing operations.

(2) Income from continuing operations for 1995 reflects the after-tax charge of \$99.2 million relating to the closure of the Tampa brewery plus the \$45.2 million after-tax impact of the beer wholesaler inventory reduction.

12. DIVESTITURE OF FOOD PRODUCTS SEGMENT

In the fourth quarter 1995, the company announced its intention to divest its food products segment and recorded a \$244.3 million net loss provision for the disposition. The company's baking subsidiary, Earthgrains, was divested in a tax-free 100% spin-off to shareholders on March 26, 1996. In June 1996, the company sold most of its Eagle Snacks production facilities which effectively completed the divestiture. Accordingly, the company revised its estimated loss provision for the disposition of the food products segment and recorded a \$33.8 million after-tax gain (\$.07 per share) in the second quarter 1996 which is reported as income from discontinued operations. Because the food products segment was discontinued, amounts in the Consolidated Financial Statements and related Notes for all periods presented have been restated to exclude the segment's results.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sales, income/(loss) before income taxes, and related income tax provision/(benefit) of the discontinued food products segment were as follows (in millions):

| | Year Ended December 31, | | |
|---------------------------------------------------------------------|-------------------------|---------|------------|
| | 1997 | 1996 | 1995 |
| Sales | \$ — | \$ — | \$ 1,985.0 |
| Pretax loss | \$ — | \$ — | \$ (29.2) |
| Tax benefit..... | — | — | 10.4 |
| Net operating loss..... | \$ — | \$ — | \$ (18.8) |
| Provision for divestiture: | | | |
| Pretax gain/(loss) on divestiture..... | \$ — | \$ 53.8 | \$ (318.0) |
| Direct costs of disposal | — | — | (5.0) |
| Estimated operating losses during phase-out period | — | — | (12.0) |
| | — | 53.8 | (335.0) |
| Income tax (provision)/benefit | — | (20.0) | 109.5 |
| Net gain/(loss) on divestiture of the food products segment..... | \$ — | \$ 33.8 | \$ (225.5) |
| Total net income/(loss) from discontinued operations | \$ — | \$ 33.8 | \$ (244.3) |

13. CLOSURE OF THE TAMPA BREWERY

During the fourth quarter 1995, the company closed its brewery located in Tampa, Fla., resulting in a nonrecurring, pretax charge of \$160 million (\$.19 per share after-tax). The charge was comprised of the write-down of the carrying value of plant assets of \$113.7 million, employee severance costs of \$19.4 million and other disposal costs of \$26.9 million. The majority of the Tampa brewery's plant and equipment was either sold or disposed during 1996.

14. SALE OF THE ST. LOUIS CARDINALS

During the first quarter 1996, the company completed the sale of its Major League Baseball team, the St. Louis Cardinals. The sale included Busch Memorial Stadium, nearby parking garages and other properties in downtown St. Louis. The sale price was \$150 million and resulted in a pretax gain of \$54.7 million (\$.06 per share after-tax) which is presented as a separate line item in the Consolidated Statement of Income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. PREFERRED AND COMMON STOCK

Stock Activity

Activity for the company's common stock for the three years ended December 31 is summarized below:

| | <i>Common Stock Issued</i> | <i>Common Stock in Treasury</i> |
|---------------------------------------------------------------|--------------------------------|-------------------------------------|
| Balance, December 31, 1994 | 687,595,058 | (173,014,344) |
| Shares issued under stock plans | 4,123,070 | — |
| Conversion of convertible debentures | 2,812,120 | — |
| Treasury stock acquired | — | (13,562,980) |
| Balance, December 31, 1995 | 694,530,248 | (186,577,324) |
| Shares issued under stock plans | 3,726,242 | — |
| Conversion of convertible debentures | 7,535,902 | — |
| Treasury stock acquired, net of issuances of 433,874 | — | (21,857,871) |
| Balance, December 31, 1996 | 705,792,392 | (208,435,195) |
| Shares issued under stock plans | 3,472,064 | — |
| Treasury stock acquired | — | (13,808,813) |
| Balance, December 31, 1997 | 709,264,456 | (222,244,008) |

At December 31, 1997 and 1996, 40,000,000 shares of \$1.00 par value preferred stock were authorized and unissued.

Common Stock Split

All share and per share amounts have been adjusted to reflect the two-for-one common stock split distributed September 12, 1996.

Stock Repurchase Programs

The Board of Directors has approved various resolutions authorizing the company to purchase shares of its common stock for investment purposes and to meet the requirements of the company's various stock purchase and incentive plans. The most recent resolution was approved by the Board in July 1996 and authorized the repurchase of 50 million shares. The company acquired 13.8 million, 22.3 million and 13.6 million shares of common stock in 1997, 1996 and 1995 for \$587.1 million, \$770.2 million and \$393.4 million, respectively. At December 31, 1997, approximately 38.9 million shares were available for repurchase under the 1996 authorization.

Stockholder Rights Plan

The Board of Directors adopted a Stockholder Rights Plan in 1985 (extended in 1994) which in certain circumstances would permit shareholders to purchase common stock at prices substantially below market value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. COMMITMENTS AND CONTINGENCIES

In connection with plant expansion and improvement programs, the company had commitments for capital expenditures of approximately \$143 million at December 31, 1997. Obligations under capital and operating leases are not material.

The company and certain of its subsidiaries are involved in certain claims and legal proceedings in which monetary damages and other relief are sought. The company is vigorously contesting these claims. However, resolution of these claims is not expected to occur quickly, and their ultimate outcome cannot presently be predicted. It is the opinion of management that the ultimate resolution of all existing claims, legal proceedings and other contingencies, either individually or in the aggregate, will not materially affect either the company's financial position, liquidity or results of operations.

17. EARNINGS PER SHARE OF COMMON STOCK

In February 1997, the Financial Accounting Standards Board issued FAS No. 128, "Earnings Per Share (EPS)," effective for the company in the 1997 calendar year. FAS 128 simplified EPS calculations and requires the reporting of "basic" and "diluted" EPS to replace the former primary and fully diluted EPS, respectively. The company has adopted FAS 128 for 1997 annual results and restated all previously reported EPS. Adoption of FAS 128 resulted in a slight increase in basic EPS compared to primary EPS for all years presented. There was no change in diluted EPS compared to fully diluted EPS.

Reconciliations of income available to common shareholders and weighted average shares outstanding between basic and diluted EPS for the three years ended December 31 follow (in millions):

| Weighted Average Shares Outstanding | | | |
|---------------------------------------------------|-------|-------|-------|
| | 1997 | 1996 | 1995 |
| Basic weighted average shares outstanding..... | 492.6 | 499.1 | 510.9 |
| Stock option shares..... | 7.1 | 6.7 | 4.8 |
| Shares related to convertible debentures | — | 4.8 | 8.7 |
| Diluted weighted average shares outstanding | 499.7 | 510.6 | 524.4 |

| Income Available to Common Shareholders | | | |
|----------------------------------------------------|-----------|-----------|---------|
| | 1997 | 1996 | 1995 |
| Basic income from continuing operations | \$1,179.2 | \$1,156.1 | \$886.6 |
| After-tax interest on convertible debentures | — | 5.3 | 10.3 |
| Diluted income from continuing operations | \$1,179.2 | \$1,161.4 | \$896.9 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. COMPREHENSIVE INCOME

In June 1997, the Financial Accounting Standards Board issued FAS No. 130, "Reporting Comprehensive Income," which is effective for the company in 1998. The adoption of FAS 130 will modify the format the company uses to report noncash changes in shareholders equity. These changes will be shown together with net income in a new financial statement category entitled "comprehensive income." Adoption of FAS 130 will not impact the results of the company's operations.

19. QUARTERLY FINANCIAL DATA (UNAUDITED)

| Year Ended December 31, 1997 | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Annual |
|-------------------------------------------------|-------------|-------------|-------------|-------------|------------|
| Net Sales..... | \$2,462.9 | \$2,994.3 | \$3,101.6 | \$2,507.4 | \$11,066.2 |
| Gross Profit..... | 865.9 | 1,124.7 | 1,178.0 | 800.7 | 3,969.3 |
| Income from Continuing Operations | 257.7 | 381.2 | 393.5 | 146.8 | 1,179.2 |
| Cumulative Effect of Accounting Change | — | — | — | (10.0) | (10.0) |
| Net Income | \$ 257.7 | \$ 381.2 | \$ 393.5 | \$ 136.8 | \$ 1,169.2 |
| Diluted Earnings per Share: | | | | | |
| Income from Continuing Operations | \$.51 | \$.76 | \$.79 | \$.30 | \$ 2.36 |
| Cumulative Effect of Accounting Change | — | — | — | (.02) | (.02) |
| Net Income | \$.51 | \$.76 | \$.79 | \$.28 | \$ 2.34 |
| Year Ended December 31, 1996 | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Annual |
| Net Sales..... | \$2,371.8 | \$2,961.1 | \$3,063.5 | \$2,487.3 | \$10,883.7 |
| Gross Profit..... | 833.7 | 1,114.8 | 1,177.8 | 792.8 | 3,919.1 |
| Income from Continuing Operations | 275.5 | 353.4 | 377.2 | 150.0 | 1,156.1 |
| Income from Discontinued Operations..... | — | 33.8 | — | — | 33.8 |
| Net Income | \$ 275.5 | \$ 387.2 | \$ 377.2 | \$ 150.0 | \$ 1,189.9 |
| Diluted Earnings per Share: | | | | | |
| Income from Continuing Operations | \$.53 | \$.70 | \$.74 | \$.30 | \$ 2.27 |
| Income from Discontinued Operations .. | — | .07 | — | — | .07 |
| Net Income..... | \$.53 | \$.77 | \$.74 | \$.30 | \$ 2.34 |

First quarter 1996 income from continuing operations includes the nonrecurring after-tax gain of \$33.4 million (\$.06 per share) related to the sale of the St. Louis Cardinals.

FINANCIAL SUMMARY — OPERATIONS

Anheuser-Busch Companies and Subsidiaries

(In millions, except per share data)

| | 1997 | 1996 | 1995 |
|-----------------------------------------------------------|-------------|-------------|-------------|
| CONSOLIDATED SUMMARY OF OPERATIONS: | | | |
| Barrels of beer sold | 96.6 | 95.1 | 90.9 |
| Sales | \$ 12,832.4 | \$12,621.5 | \$12,004.5 |
| Federal and state excise taxes | 1,766.2 | 1,737.8 | 1,664.0 |
| Net sales | 11,066.2 | 10,883.7 | 10,340.5 |
| Cost of products and services | 7,096.9 | 6,964.6 | 6,791.0 |
| Gross profit | 3,969.3 | 3,919.1 | 3,549.5 |
| Marketing, distribution and administrative expenses | 1,916.3 | 1,890.0 | 1,756.6 |
| Gain on sale of St. Louis Cardinals | — | 54.7 | — |
| Shutdown of Tampa brewery | — | — | 160.0 |
| Restructuring charge | — | — | — |
| Operating income | 2,053.0 | 2,083.8 (2) | 1,632.9 (3) |
| Interest expense | (261.2) | (232.8) | (225.9) |
| Interest capitalized | 42.1 | 35.5 | 24.3 |
| Interest income | 7.9 | 9.4 | 9.9 |
| Other income/(expense), net | (9.3) | (3.0) | 20.5 |
| Income before income taxes | 1,832.5 | 1,892.9 (2) | 1,461.7 (3) |
| Income taxes (current and deferred) | 703.6 | 736.8 | 575.1 |
| Revaluation of deferred tax liability under FAS 109 | — | — | — |
| Equity income, net of tax | 50.3 | — | — |
| Income from continuing operations | 1,179.2 | 1,156.1 (2) | 886.6 (3) |
| Income/(loss) from discontinued operations | — | 33.8 | (244.3) |
| Income before accounting changes | 1,179.2 | 1,189.9 | 642.3 |
| Cumulative effect of accounting changes | (10.0) (1) | — | — |
| NET INCOME | \$ 1,169.2 | \$ 1,189.9 | \$ 642.3 |
| BASIC EARNINGS PER SHARE: | | | |
| Continuing operations | \$ 2.39 | \$ 2.31 | \$ 1.73 |
| Discontinued operations | — | .07 | (.47) |
| Income before accounting changes | 2.39 | 2.38 | 1.26 |
| Cumulative effect of accounting changes | (.02) (1) | — | — |
| Net income | \$ 2.37 | \$ 2.38 | \$ 1.26 |
| DILUTED EARNINGS PER SHARE: | | | |
| Continuing operations | \$ 2.36 | \$ 2.27 (2) | \$ 1.71 (3) |
| Discontinued operations | — | .07 | (.47) |
| Income before accounting changes | 2.36 | 2.34 | 1.24 |
| Cumulative effect of accounting changes | (.02) (1) | — | — |
| Net income | \$ 2.34 | \$ 2.34 | \$ 1.24 |
| Cash dividends paid: | | | |
| Common stock | 492.6 | 458.9 | 429.5 |
| Per share | 1.00 | .92 | .84 |
| Preferred stock (\$3.23 per share) | — | — | — |
| Weighted average number of common shares: | | | |
| Basic | 492.6 | 499.1 | 510.9 |
| Diluted | 499.7 | 510.6 | 524.4 |

Note: All per share information and average number of common shares data reflect the September 12, 1996 two-for-one stock split and the 1997 adoption of FAS 128, "Earnings per Share," as applicable. All financial information has been restated to recognize the 1995 divestiture of the food products segment. All amounts include the acquisition of Sea World as of December 1, 1989. Financial information for 1987 has been restated to reflect the 1988 adoption of FAS 94, "Consolidation of Majority-Owned Subsidiaries."

(1) 1997 change in accounting for deferred systems reengineering costs, net of tax benefit of \$6.2 million. 1992 change in accounting for income taxes and postretirement benefits, net of tax benefit of \$186.4 million.

(2) 1996 results include the impact of the gain on the sale of the St. Louis Cardinals. Excluding the Cardinal gain, operating income, pretax income, income from continuing operations and diluted earnings per share would have been \$2,029.1 million, \$1,838.2 million, \$1,122.7 million and \$2.21, respectively.

FINANCIAL SUMMARY — OPERATIONS

Anheuser-Busch Companies and Subsidiaries

| 1994 | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 | 1987 |
|------------|-------------|------------|------------|-----------|-----------|-----------|-----------|
| 91.3 | 89.7 | 88.9 | 87.9 | 88.1 | 82.2 | 79.9 | 77.3 |
| \$11,705.0 | \$11,147.3 | \$11,008.6 | \$10,631.9 | \$9,716.1 | \$8,553.7 | \$8,120.5 | \$7,605.0 |
| 1,679.7 | 1,679.8 | 1,668.6 | 1,637.9 | 868.1 | 802.3 | 781.0 | 760.7 |
| 10,025.3 | 9,467.5 | 9,340.0 | 8,994.0 | 8,848.0 | 7,751.4 | 7,339.5 | 6,844.3 |
| 6,492.1 | 6,167.6 | 6,051.8 | 5,953.5 | 5,963.4 | 5,226.5 | 4,878.1 | 4,467.1 |
| 3,533.2 | 3,299.9 | 3,288.2 | 3,040.5 | 2,884.6 | 2,524.9 | 2,461.4 | 2,377.2 |
| 1,679.9 | 1,612.1 | 1,583.7 | 1,409.5 | 1,364.9 | 1,244.3 | 1,245.2 | 1,274.4 |
| — | — | — | — | — | — | — | — |
| — | — | — | — | — | — | — | — |
| — | 401.3 | — | — | — | — | — | — |
| 1,853.3 | 1,286.5 (4) | 1,704.5 | 1,631.0 | 1,519.7 | 1,280.6 | 1,216.2 | 1,102.8 |
| (219.3) | (205.1) | (194.6) | (234.0) | (277.2) | (172.9) | (134.6) | (114.1) |
| 21.8 | 35.2 | 46.9 | 45.6 | 52.5 | 49.8 | 42.9 | 38.9 |
| 2.6 | 3.4 | 4.4 | 6.6 | 4.3 | 7.9 | 9.8 | 12.8 |
| 17.6 | 21.0 | (2.5) | 1.3 | (16.5) | 17.7 | (15.5) | 3.9 |
| 1,676.0 | 1,141.0 (4) | 1,558.7 | 1,450.5 | 1,282.8 | 1,183.1 | 1,118.8 | 1,044.3 |
| 661.5 | 452.6 | 594.6 | 549.6 | 481.4 | 438.2 | 422.0 | 439.1 |
| — | 31.2 | — | — | — | — | — | — |
| — | — | — | — | — | — | — | — |
| 1,014.5 | 657.2 (4) | 964.1 | 900.9 | 801.4 | 744.9 | 696.8 | 605.2 |
| 17.6 | (62.7) | 30.1 | 38.9 | 41.0 | 22.3 | 19.1 | 9.5 |
| 1,032.1 | 594.5 | 994.2 | 939.8 | 842.4 | 767.2 | 715.9 | 614.7 |
| — | — | (76.7) (1) | — | — | — | — | — |
| \$ 1,032.1 | \$ 594.5 | \$ 917.5 | \$ 939.8 | \$ 842.4 | \$ 767.2 | \$ 715.9 | \$ 614.7 |
| \$ 1.93 | \$ 1.20 | \$ 1.71 | \$ 1.59 | \$ 1.42 | \$ 1.32 | \$ 1.20 | \$ 1.13 |
| .04 | (.11) | .05 | .06 | .07 | .04 | .04 | .02 |
| 1.97 | 1.09 | 1.76 | 1.65 | 1.49 | 1.36 | 1.24 | 1.15 |
| — | — | (.13) (1) | — | — | — | — | — |
| \$ 1.97 | \$ 1.09 | \$ 1.63 | \$ 1.65 | \$ 1.49 | \$ 1.36 | \$ 1.24 | \$ 1.15 |
| \$ 1.90 | \$ 1.20 (4) | \$ 1.68 | \$ 1.56 | \$ 1.40 | \$ 1.30 | \$ 1.19 | \$ 1.00 |
| .04 | (.11) | .05 | .06 | .07 | .04 | .04 | .02 |
| 1.94 | 1.09 | 1.73 | 1.62 | 1.47 | 1.34 | 1.23 | 1.02 |
| — | — | (.13) (1) | — | — | — | — | — |
| \$ 1.94 | \$ 1.09 | \$ 1.60 | \$ 1.62 | \$ 1.47 | \$ 1.34 | \$ 1.23 | \$ 1.02 |
| 398.8 | 370.0 | 338.3 | 301.1 | 265.0 | 226.2 | 188.6 | 148.4 |
| .76 | .68 | .60 | .53 | .47 | .40 | .33 | .27 |
| — | — | — | — | — | — | — | 20.1 |
| 524.6 | 544.3 | 563.7 | 568.0 | 563.7 | 565.5 | 577.1 | 533.8 |
| 538.0 | 558.6 | 581.6 | 585.8 | 579.4 | 572.4 | 584.4 | 603.0 |

(3) 1995 results include the impact of the one-time pretax charge of \$160 million for the closure of the Tampa brewery, and the \$74.5 million pretax impact of the beer wholesaler inventory reduction. Excluding these nonrecurring special items, operating income, pretax income, income from continuing operations and diluted earnings per share would have been \$1,867.3 million, \$1,696.2 million, \$1,032.3 million and \$1.99, respectively.

(4) 1993 results include the impact of two nonrecurring special charges. These charges are (1) a restructuring charge (\$401.3 million, pretax) and (2) a revaluation of the deferred tax liability due to the 1% increase in federal tax rates (\$31.2 million, after-tax). Excluding these nonrecurring special charges, operating income, pretax income, income from continuing operations and diluted earnings per share would have been \$1,687.8 million, \$1,542.3 million, \$935.2 million and \$1.69, respectively.

FINANCIAL SUMMARY — BALANCE SHEET AND OTHER INFORMATION

Anheuser-Busch Companies and Subsidiaries

(In millions, except per share and statistical data)

| | 1997 | 1996 | 1995 |
|-----------------------------------------------------------------|----------------------------------------------------------------|----------------------------------------------------------------|-----------------------------------|
| BALANCE SHEET INFORMATION: | | | |
| Working capital (deficit) | \$ 83.2 | \$ 34.9 | \$ 268.6 |
| Current ratio | 1.1 | 1.0 | 1.2 |
| Plant and equipment, net | 7,750.6 | 7,208.2 | 6,763.0 |
| Long-term debt | 4,365.6 | 3,270.9 | 3,270.1 |
| Total debt to total capitalization ratio | 51.9% | 44.8% | 47.1% |
| Deferred income taxes | 1,293.6 | 1,208.1 | 1,132.8 |
| Shareholders equity | 4,041.8 | 4,029.1 | 4,433.9 |
| Return on shareholders equity | 29.2% (1) | 30.0% (2) | 25.0% (3) |
| Book value per share | 8.30 | 8.10 | 7.22 |
| Total assets | 11,727.1 | 10,463.6 | 10,590.9 |
| OTHER INFORMATION: | | | |
| Capital expenditures..... | \$ 1,199.3 | \$ 1,084.6 | \$ 952.5 |
| Depreciation and amortization..... | 683.7 | 611.5 | 573.9 |
| Effective tax rate | 38.4% | 38.9% | 39.3% |
| Price/earnings ratio | 18.6 (1) | 17.6 (2) | 19.6 (3) |
| Percent of pretax profit on net sales | 16.6% | 17.4% | 14.1% |
| Market price range of common stock (high and low closing) | 47 ⁷ / ₈ -39 ¹ / ₂ | 42 ⁷ / ₈ -32 ¹ / ₂ | 34-25 ³ / ₈ |

Note: All share and per share information reflects the September 12, 1996 two-for-one stock split. All financial information has been restated to recognize the 1995 divestiture of the food products segment. All amounts include the acquisition of Sea World as of December 1, 1989. Financial information for 1987 has been restated to reflect the 1988 adoption of FAS 94, "Consolidation of Majority-Owned Subsidiaries."

(1) These ratios have been calculated based on income from continuing operations before the cumulative effect of accounting changes.

(2) These ratios have been calculated based on reported income from continuing operations, which includes the \$54.7 million pretax gain on the sale of the St. Louis Cardinals. Excluding the Cardinal gain, return on shareholders equity would have been 29.2% and the price/earnings ratio would have been 18.1.

(3) These ratios have been calculated based on reported income from continuing operations. Excluding the two nonrecurring 1995 items (\$160 million pretax charge for closure of the Tampa brewery and \$74.5 million impact of the beer wholesaler inventory reduction), return on shareholders equity would have been 29.1% and the price/earnings ratio would have been 16.8.

(4) These ratios have been calculated based on reported income from continuing operations. Excluding the two nonrecurring 1993 charges (\$401.3 million pretax restructuring charge and \$31.2 million after-tax FAS 109 charge), return on shareholders equity would have been 26.7% and the price/earnings ratio would have been 13.8.

FINANCIAL SUMMARY — BALANCE SHEET AND OTHER INFORMATION

Anheuser-Busch Companies and Subsidiaries

| 1994 | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 | 1987 |
|----------------------------------------------------------------|-----------|------------------------------------|----------------------------------------------------------------|----------------------------------------------------------------|----------------------------------------------------------------|-----------------------------------|----------------------------------------------------------------|
| \$ 57.0 | \$ (41.3) | \$ 247.8 | \$ 107.9 | \$ (62.8) | \$ (82.8) | \$ (23.7) | \$ 42.5 |
| 1.0 | 1.0 | 1.2 | 1.1 | 0.9 | 0.9 | 1.0 | 1.0 |
| 6,494.6 | 6,454.7 | 6,424.7 | 6,260.6 | 6,102.2 | 5,768.0 | 4,624.2 | 4,177.4 |
| 3,066.4 | 3,019.7 | 2,630.3 | 2,627.9 | 3,115.8 | 3,268.9 | 1,570.0 | 1,366.4 |
| 47.3% | 47.3% | 42.0% | 43.9% | 54.5% | 60.7% | 41.7% | 40.6% |
| 1,081.5 | 1,013.1 | 1,065.5 | 1,401.0 | 1,309.3 | 1,241.9 | 1,155.8 | 1,123.7 |
| 4,415.5 | 4,255.5 | 4,620.4 | 4,438.1 | 3,679.1 | 3,099.9 | 3,102.9 | 2,892.2 |
| 29.9% | 18.8%(4) | 27.6%(1) | 30.2% | 34.0% | 34.6% | 33.3% | 31.8% |
| 6.64 | 6.31 | 6.51 | 5.90 | 4.60 | 3.74 | 3.87 | 3.40 |
| 10,547.4 | 10,267.7 | 9,954.9 | 9,642.5 | 9,274.2 | 8,690.1 | 6,788.9 | 6,260.3 |
| \$ 662.8 | \$ 656.3 | \$ 628.8 | \$ 625.5 | \$ 805.3 | \$ 979.0 | \$ 858.1 | \$ 716.9 |
| 517.0 | 492.7 | 453.3 | 437.0 | 404.3 | 333.1 | 306.5 | 267.9 |
| 39.5% | 42.4% | 38.1% | 37.9% | 37.5% | 37.0% | 37.7% | 42.0% |
| 13.1 | 22.6 (4) | 16.9 (1) | 18.9 | 14.6 | 14.4 | 12.9 | 16.4 |
| 16.7% | 12.1% | 16.7% | 16.1% | 14.5% | 15.3% | 15.2% | 15.3% |
| 27 ⁵ / ₈ -23 ¹ / ₂ | 30-22 | 30 ¹ / ₄ -26 | 30 ³ / ₄ -19 ³ / ₄ | 22 ¹ / ₂ -17 ¹ / ₈ | 22 ¹ / ₈ -15 ¹ / ₄ | 17-14 ¹ / ₂ | 19 ⁷ / ₈ -13 ¹ / ₄ |

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Information Officer*

Charles R. Koenig
Vice President—Corporate Purchasing

William J. Kimmins
Vice President and Treasurer

John D. Castagno
Tax Controller

Gary R. Aldenderfer
General Auditor

Laura H. Reeves
Assistant Secretary

David C. Sauerhoff
Assistant Treasurer

William J. Mayor
Assistant Controller

PRINCIPAL OFFICERS OF ANHEUSER-BUSCH COMPANIES SUBSIDIARIES

Anheuser-Busch, Inc.

(† Member of the Anheuser-Busch, Inc. Management Committee)

August A. Busch III
Chairman of the Board and
Chief Executive Officer

Patrick T. Stokes†
President

James F. Hoffmeister†
Vice President—Administration

Gary R. Welker†
Vice President—Distribution Systems
and Services

Anthony T. Ponturo†
Vice President—Corporate Media
and Sports Marketing

Joseph P. Sellinger†
Vice President—Operations

August A. Busch IV†
Vice President—Marketing

Joseph P. Castellano†
Vice President—Wholesale Operations
Division

Phillip J. Colombatto†
Vice President—Quality Assurance

Michael J. Brooks†
Vice President—Sales

Douglas J. Muhleman†
Vice President—Brewing

Robert C. Lachky†
Vice President—Brand Management

Robert F. Hudson†
Vice President—Business Planning

James D. Boden
Vice President—Operations Control

Joseph V. Corcoran
Vice President—National
On-Premise Sales

Robert J. Goughenour
Vice President—Wholesaler
Development

John J. Hanichak III
Vice President—Business Development

Heinrich K. Heissinger
Vice President—Brewing
Research and Technology

Joseph M. Hoff
Vice President—National
Off-Premise Sales

Salvatore J. LaMartina
Vice President—Revenue Management

Michael J. Owens
Vice President—Geographic
Marketing

**Anheuser-Busch
International, Inc.**

John H. Purnell
Chairman of the Board and
Chief Executive Officer

Stephen J. Burrows
President and Chief Operating Officer

John S. Koykka
Executive Vice President—Development
and Chief Financial Officer

Mark F. Schumm
Vice President—Planning
and Administration

Robert J. Gunthner
Vice President and Regional Director—
Americas

Takao Kondo
Vice President—East Asia Region

Philip C. Davis
Vice President and Managing
Director—Anheuser-Busch China

William H. McNulty
Vice President and Regional Director—
UK/Republic of Ireland

Mark E. Danner
Vice President and Managing
Director—Continental Europe

Alejandro Strauch
Vice President—Mexico

Andrew Day
Vice President and Managing
Director—Budweiser Japan Co., Ltd.

George S. Thomas
Senior Vice President—Legal Affairs

Richard H. Faught
Vice President—International Affairs

Iris Lee
Vice President—China Development
and Public Affairs

**Anheuser-Busch Investment
Capital Corporation**

Patrick T. Stokes
Chairman of the Board and
Chief Executive Officer

Kenneth W. Reiter
President

John L. Hamilton
Vice President

**Busch Agricultural
Resources, Inc.**

Donald W. Kloth
Chairman of the Board and
Chief Executive Officer

Melvyn K. Anderson
President

Stephen D. Malin
Vice President—Operations

Thomas M. Wood
Vice President—Technical Operations

Thomas L. Tangaro
Vice President—Staff Operations

**Metal Container
Corporation**

Joseph L. Goltzman
Chairman of the Board, President
and Chief Executive Officer

James E. Engelhuber
Executive Vice President and
Chief Operating Officer

Allan T. Copestick
Vice President—Sales and Marketing

Robert F. Wellise
Senior Vice President—
Manufacturing and Technology

Mark V. Stafford
Vice President—Quality

Jerome A. Riley
Vice President—Human Resources

Charles Rothofsky
Vice President—Lid Manufacturing

William C. Wilkenloh
Vice President—International
Development

**Anheuser-Busch Recycling
Corporation**

Joseph L. Goltzman
Chairman of the Board, President
and Chief Executive Officer

G. Weber Gaskin
Executive Vice President and
Chief Operating Officer

**Precision Printing and
Packaging, Inc.**

Joseph L. Goltzman
Chairman and President

Nancy E. Jakse
Executive Vice President and Chief
Operating Officer

Randall D. Jacobs
Vice President—Marketing and
Customer Services

**Packaging Business
Services, Inc.**

Joseph L. Goltzman
Chairman of the Board, President
and Chief Executive Officer

Gary A. Bybee
Group Vice President and
Chief Administrative Officer

**Busch Entertainment
Corporation**

John B. Roberts
Chairman of the Board and President

Daniel B. Brown
Vice President—Operations

J. Dennis Burks
Vice President—Food Service

John J. Schaefer
Vice President—Finance and
Information Technology

Kristine A. Schmidt
Vice President—Human Resources

Donald L. Eddings
Vice President—Merchandise

Joseph G. Peczi
Vice President—Entertainment

Christopher M. Shea
Vice President—Marketing

James R. Yust
Vice President—Engineering and
Product Development

Andrew P. Fichthorn
Vice President—Planning and
Development

Busch Properties, Inc.

William L. Rammes
Chairman of the Board and President

John C. Martz Jr.
Vice President—Corporate
Real Estate

William F. Brown
Vice President—Busch Corporate
Centers

William B. Voliva
Vice President—Kingsmill
on the James

Terri A. Haack
Vice President and General Manager—
Kingsmill Resort

**Busch Creative Services
Corporation**

Karen L. Branding
Chairman of the Board, President
and Chief Executive Officer

**St. Louis Refrigerator Car
Company; Manufacturers
Railway Company**

Edward R. Goedeke
Chairman, President and
Chief Executive Officer

Joel A. Murnin
Group Vice President and
Chief Financial Officer

BOARD OF DIRECTORS



August A. Busch III
Chairman of the Board and President—Anheuser-Busch Companies
Joined board 1963



Vernon R. Loucks Jr.
Chairman and Chief Executive Officer—Baxter International Inc.; an international manufacturer and marketer of health-care products, systems and services
Joined board 1988



Douglas A. Warner III
Chairman of the Board and President—J.P. Morgan & Co., Inc. and Morgan Guaranty Trust Company of New York; an international commercial and investment banking firm
Joined board 1992



Bernard A. Edison
Former President—Edison Brothers Stores, Inc.; retail specialty stores
Joined board 1985



Vilma S. Martinez
Partner—Munger, Tolles & Olson; attorneys
Joined board 1983



William H. Webster
Partner—Milbank, Tweed, Hadley & McCloy; attorneys
Joined board 1991



Carlos Fernandez G.
Vice Chairman of the Board and Chief Executive Officer—Grupo Modelo, S.A. de C.V.; a Mexican company engaged in brewing and related operations
Joined board 1996



Sybil C. Mobley
Dean of the School of Business and Industry—Florida A&M University
Joined board 1981



Edward E. Whitacre Jr.
Chairman and Chief Executive Officer—SBC Communications Inc.; a diversified telecommunications company
Joined board 1988



Peter M. Flanigan
Senior Advisor—SBC Warburg Dillon Read, Inc.; an investment banking firm
Joined board 1978



James B. Orthwein
Partner—Precise Capital, L.P.; a private investment partnership
Joined board 1963



Antonino Fernandez R.
Chairman and President—Grupo Modelo, S.A. de C.V.; a Mexican company engaged in brewing and related operations
Joined board 1993



John E. Jacob
Executive Vice President and Chief Communications Officer—Anheuser-Busch Companies
Joined board 1990



William Porter Payne
Vice Chairman—NationsBank Corporation; a multi-bank holding company
Joined board 1997



Charles F. Knight
Chairman of the Board and Chief Executive Officer—Emerson Electric Co.; a manufacturer of electrical and electronic equipment
Joined board 1987



Andrew C. Taylor
President and Chief Executive Officer—Enterprise Rent-A-Car Company; a national car rental company
Joined board 1995

INVESTOR INFORMATION

Anheuser-Busch Companies

World Headquarters

One Busch Place
St. Louis, Mo. 63118
314-577-2000

Annual Meeting

Wednesday, April 22, 1998, 10 a.m.
Williamsburg, Va.

Transfer Agent, Registrar and Dividend Payments

ChaseMellon Shareholder Services, L.L.C.
85 Challenger Rd.
Overpeck Centre
Ridgefield Park, NJ 07660
1-888-213-0964

Dividend Reinvestment Plan

The company's Dividend Reinvestment Plan allows shareholders to reinvest dividends in Anheuser-Busch Companies common stock automatically, regularly and conveniently—without service charges or brokerage fees. In addition, participating shareholders may supplement the amount invested with voluntary cash investments on the same cost-free basis. Plan participation is voluntary and shareholders may join or withdraw at any time. For more information, contact ChaseMellon Shareholder Services (address above).

Stock Exchange Listings Traded on These Exchanges

| | | | |
|-----------|-------|------------|--------------|
| New York | Paris | Boston | Pacific |
| London | Swiss | Chicago | Philadelphia |
| Frankfurt | | Cincinnati | |

Ticker Symbol: **BUD**
Newspaper Listing: **AnheuserB**

Anheuser-Busch Companies Subsidiaries

Anheuser-Busch, Inc.

World's largest brewer and U.S. industry leader since 1957; produces approximately 30 beers and two nonalcohol brews at 12 U.S. breweries

Anheuser-Busch International, Inc.

Explores and develops beer markets outside the United States

Anheuser-Busch Investment Capital Corporation

Shares equity positions with qualified partners in Anheuser-Busch, Inc. distributorships while they build toward total ownership

Anheuser-Busch Recycling Corporation

World's largest recycler of aluminum beverage containers

Busch Agricultural Resources, Inc.

Produces and enhances the incoming quality of raw materials for Anheuser-Busch, Inc.

Busch Creative Services Corporation

A marketing, creative services and business communications company

Busch Entertainment Corporation

One of the largest U.S. theme-park operators, with nine parks throughout the country

Busch Properties, Inc.

A real estate development company with resort, residential and commercial properties in selected areas of the country

Independent Accountants

Price Waterhouse LLP
800 Market Street
St. Louis, Mo. 63101

Trustee for Debentures and Notes

The Chase Manhattan Bank
450 West 33rd St.
New York, N.Y. 10001
1-800-648-8380

Dividends

Dividends are normally paid in the months of March, June, September and December.

Other Information

Earnings results and dividend declarations will be announced on the following dates in 1998: April 22, July 22 and October 28.

You may obtain, at no charge, a copy of the Anheuser-Busch Companies Annual Report to the Securities and Exchange Commission (Form 10-K) by writing to the Vice President and Secretary's office at the corporate address, or calling 314-577-3889.

Selected Anheuser-Busch Internet Addresses

<http://www.anheuser-busch.com>
<http://www.budweiser.com>
<http://www.seaworld.com>
<http://www.buschgardens.com>

General Information by Phone (toll-free)

1-800-DIAL-BUD (1-800-342-5283)

Manufacturers Railway Company

Provides terminal rail-switching services to St. Louis industries and operates trucking subsidiaries

Metal Container Corporation

Produces cans and lids for Anheuser-Busch, Inc. and U.S. soft-drink companies

Packaging Business Services, Inc.

Provides administrative services and develops existing and new businesses for the Packaging Group

Precision Printing and Packaging, Inc.

Produces metalized labels for Anheuser-Busch, Inc. and other customers

St. Louis Refrigerator Car Company

Provides commercial repair, rebuilding, maintenance and inspection of railroad cars

The 1997 Anheuser-Busch Companies Annual Report is printed on recycled paper.

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